CyrusOne Inc.
Form 10-Q
August 08, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2014
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period ___________ to ___________
Commission File Number: 001-35789 (CyrusOne Inc.)
Commission File Number: 333-188426 (CyrusOne LP)
CyrusOne Inc.

CyrusOne LP
(Exact name of registrant as specified in its charter)

Maryland (CyrusOne Inc.)	46-0691837
Maryland (CyrusOne LP)	46-0982896
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1649 West Frankford Road, Carrollton, TX 75007

(Address of Principal Executive Offices) (Zip Code)
(972) 350-0060
(Registrant's telephone number, including area code)

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.

CyrusOne Inc. Yes ý No ¨
CyrusOne LP Yes ý No ¨

Table of Contents

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).
CyrusOne Inc. Yes ý No ¨
CyrusOne LP Yes ý No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

CyrusOne Inc.

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	ý	Smaller reporting company	¨

CyrusOne LP

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	ý	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
CyrusOne Inc. Yes ¨ No ý
CyrusOne LP Yes ¨ No ý

CyrusOne Inc.
There were 38,660,973 shares of common stock outstanding as of August 1, 2014 with a par value of $0.01 per share.

Table of Contents

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended June 30, 2014 of CyrusOne Inc., a Maryland corporation, and CyrusOne LP, a Maryland limited partnership, of which CyrusOne GP, a Maryland statutory trust of which CyrusOne Inc. is the sole beneficial owner and sole trustee, is the sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to "we," "us," "our," "our Company" or "the Company" refer to CyrusOne Inc. together with its consolidated subsidiaries, including CyrusOne LP. Unless otherwise indicated or unless the context requires otherwise, all references to "our operating partnership" or "the operating partnership" refer to CyrusOne LP together with its consolidated subsidiaries.

CyrusOne Inc. is a real estate investment trust, or REIT, and the sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner of CyrusOne LP. As of June 30, 2014, CyrusOne Inc., together with CyrusOne GP, owned approximately 59.2% of the operating partnership units in CyrusOne LP. The remaining approximately 40.8% of the operating partnership units in CyrusOne LP, which is reflected as a noncontrolling interest, is owned by our former parent, Cincinnati Bell Inc. ("CBI"). As the sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner of CyrusOne LP, CyrusOne Inc. has the full, exclusive and complete responsibility for the operating partnership's day-to-day management and control.

We believe combining the quarterly reports of CyrusOne Inc. and CyrusOne LP into this single report on Form 10-Q results in the following benefits:

- enhancing investors' understanding of our Company and our operating partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminating duplicative disclosure and providing a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the operating partnership; and
- creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

There are a few differences between our Company and our operating partnership, which are reflected in the disclosures in this report. We believe it is important to understand the differences between our Company and our operating partnership in the context of how we operate as an interrelated consolidated company. CyrusOne Inc. is a REIT, whose only material asset is its ownership of operating partnership units of CyrusOne LP. As a result, CyrusOne Inc. does not conduct business itself, other than acting as the sole trustee of CyrusOne GP, issuing public equity from time to time and guaranteeing certain debt of CyrusOne LP. CyrusOne Inc. itself does not issue any indebtedness but guarantees the debt of CyrusOne LP, as disclosed in this report. CyrusOne LP holds substantially all the assets of the Company. CyrusOne LP conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for net proceeds from public equity issuances by CyrusOne Inc., which are generally contributed to CyrusOne LP in exchange for operating partnership units, CyrusOne LP generates the capital required by the Company's business through CyrusOne LP's operations and by CyrusOne LP's incurrence of indebtedness or through the issuance of partnership units.

The presentation of noncontrolling interest, shareholders' equity and partnership capital are the main areas of difference between the condensed consolidated financial statements of CyrusOne Inc. and those of CyrusOne LP. The operating partnership units held by CBI in CyrusOne LP are presented as partnership capital in CyrusOne LP's condensed consolidated financial statements and as noncontrolling interest within equity in CyrusOne Inc.'s condensed consolidated financial statements. The operating partnership units held by CyrusOne Inc. in CyrusOne LP are presented as partnership capital in CyrusOne LP's condensed consolidated financial statements and as common stock and additional paid in capital within shareholders' equity in CyrusOne Inc.'s condensed consolidated financial statements. The differences in the presentations between shareholders' equity and partnership capital result from the differences in the equity issued at the CyrusOne Inc. and the CyrusOne LP levels.

To help the investors understand the significant differences between the Company and the operating partnership, this report presents the condensed consolidated financial statements separately for the Company and the operating partnership.

As sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner with control of the operating partnership, CyrusOne Inc. consolidates the operating partnership for financial reporting purposes, and it does not have significant assets other than its investment in the operating partnership. Therefore, the assets and liabilities of CyrusOne Inc. and CyrusOne LP are the same on their respective condensed consolidated financial statements. The separate discussions of CyrusOne Inc. and CyrusOne LP in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

In order to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and the operating partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and with 18 U.S.C. §1350, this report also includes separate Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of the Company and the operating partnership.

Table of Contents

All other sections of this report, including select footnotes, Management's Discussion and Analysis of Financial Condition, Results of Operations and Quantitative and Qualitative Disclosures About Market Risk, are presented together for CyrusOne Inc. and CyrusOne LP.

INDEX

Table of Contents

PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CyrusOne Inc.
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited and in millions, except share amounts)

	As of June 30, 2014	As of December 31, 2013
Assets		
Investment in real estate:		
Land	$89.7	$89.3
Buildings and improvements	791.7	783.7
Equipment	298.8	190.2
Construction in progress	59.5	57.3
Subtotal	1,239.7	1,120.5
Accumulated depreciation	(280.6)	(236.7)
Net investment in real estate	959.1	883.8
Cash and cash equivalents	49.3	148.8
Rent and other receivables, net of allowance for doubtful accounts of $1.1 and $0.5 as of June 30, 2014, and December 31, 2013, respectively	61.5	41.2
Goodwill	276.2	276.2
Intangible assets, net of accumulated amortization of $63.6 and $55.1 as of June 30, 2014, and December 31, 2013, respectively	77.4	85.9
Due from affiliates	0.5	0.6
Other assets	82.1	70.3
Total assets	$1,506.1	$1,506.8
Liabilities and equity		
Accounts payable and accrued expenses	$83.9	$66.8
Deferred revenue	66.7	55.9
Due to affiliates	7.4	8.5
Capital lease obligations	15.0	16.7
Long-term debt	525.0	525.0
Other financing arrangements	57.1	56.3
Commitment and contingencies	—	—
Total liabilities	755.1	729.2
Commitment and contingencies		
Equity		
Preferred stock, $.01 par value, 100,000,000 authorized; no shares issued or outstanding	—	—
Common stock, $.01 par value, 500,000,000 shares authorized and 38,658,249 and 21,991,669 shares issued and outstanding at June 30, 2014 and December 31, 2013, respectively	0.4	0.2
Additional paid in capital	511.1	340.7
Accumulated deficit	(32.7)	(18.9)
Total shareholders' equity	478.8	322.0
Noncontrolling interest	272.2	455.6
Total equity	751.0	777.6
Total liabilities and equity	$1,506.1	$1,506.8

The accompanying notes are an integral part of the condensed consolidated and combined financial statements.

Table of Contents

CyrusOne Inc.
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(unaudited and in millions, except per share data)

	Successor	Successor	Successor	Successor	Predecessor
	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	January 24, 2013 to June 30, 2013	January 1, 2013 to January 23, 2013
Revenue	$81.7	$63.6	$159.2	$108.6	$15.1
Costs and expenses:					
Property operating expenses	31.8	24.6	59.5	39.9	4.8
Sales and marketing	3.5	2.9	6.5	5.0	0.7
General and administrative	8.4	7.1	15.7	12.5	1.5
Depreciation and amortization	29.8	23.0	57.4	39.4	5.3
Transaction costs	0.8	0.4	0.9	0.4	0.1
Transaction-related compensation	—	—	—	—	20.0
Total costs and expenses	74.3	58.0	140.0	97.2	32.4
Operating income (loss)	7.4	5.6	19.2	11.4	(17.3)
Interest expense	10.7	10.8	21.4	19.2	2.5
Loss on extinguishment of debt	—	1.3	—	1.3	—
Net loss before income taxes	(3.3)	(6.5)	(2.2)	(9.1)	(19.8)
Income tax expense	(0.3)	(0.3)	(0.7)	(0.5)	(0.4)
Net loss	(3.6)	(6.8)	(2.9)	(9.6)	$(20.2)
Noncontrolling interest in net loss	(2.5)	(4.5)	(2.0)	(6.4)	
Net loss attributed to common shareholders	$(1.1)	$(2.3)	$(0.9)	$(3.2)	
Basic weighted average common shares outstanding	21.7	20.9	21.3	20.9	
Diluted weighted average common shares outstanding	21.7	20.9	21.3	20.9	
Loss per share - basic and diluted	$(0.06)	$(0.12)	$(0.06)	$(0.17)	
Dividend declared per share	$0.21	$0.16	$0.42	$0.32	

The accompanying notes are an integral part of the condensed consolidated and combined financial statements.

Table of Contents

CyrusOne Inc.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(unaudited and in millions)

	Common Stock Issued Shares	Common Stock Issued Amount	Additional Paid In Capital	Accumulated Deficit	Partnership Capital	Total Shareholders Equity/ Parent's Net Investment	Non-controlling Interest	Total Equity
Balance at January 1, 2013	—	$ —	$ 7.1	$ —	$ 493.0	$ 500.1	$ —	$ 500.1
Net loss—January 1, 2013 to January 23, 2013	—	—	—	—	(20.2)	(20.2)	—	(20.2)
Other contributions from Parent	—	—	—	—	1.3	1.3	—	1.3
Contributions from Parent—Transaction compensation expense reimbursement	—	—	—	—	19.6	19.6	—	19.6
Noncontrolling interest effective January 24, 2013	—	—	(7.1)	—	(493.7)	(500.8)	500.8	—
Common stock issued	19.0	0.2	336.9	—	—	337.1	—	337.1
Common stock issued to CBI in exchange for operating partnership units	1.5	—	—	—	—	—	—	—
Common stock issued to CBI in exchange for settlement of IPO costs paid by CBI	0.4	—	7.1	—	—	7.1	(7.1)	—
IPO costs	—	—	(9.5)	—	—	(9.5)	—	(9.5)
Restricted shares issued	1.2	—	—	—	—	—	—	—
Net loss—January 24, 2013 to June 30, 2013	—	—	—	(9.6)	—	(9.6)	—	(9.6)
Noncontrolling interest allocated net loss	—	—	—	6.4	—	6.4	(6.4)	—
Stock-based compensation	—	—	3.0	—	—	3.0	—	3.0
Dividends declared, $0.32 per share	—	—	—	(6.5)	—	(6.5)	(14.1)	(20.6)
Balance at June 30, 2013	22.1	$ 0.2	$ 337.5	$ (9.7)	$ —	$ 328.0	$ 473.2	$ 801.2
Balance January 1, 2014	22.0	$ 0.2	$ 340.7	$ (18.9)	$ —	$ 322.0	$ 455.6	$ 777.6
Net loss	—	—	—	(2.9)	—	(2.9)	—	(2.9)
Noncontrolling interest allocated net loss	—	—	—	2.0	—	2.0	(2.0)	—
Stock issuance costs	—	—	(1.3)	—	—	(1.3)	—	(1.3)
Restricted shares issued under long-term incentive plan	0.7	—	—	—	—	—	—	—
Stock-based compensation	—	—	5.0	—	—	5.0	—	5.0
Issuance of common stock	16.0	0.2	355.7	—	—	355.9	—	355.9
Redemption of noncontrolling interest	—	—	(189.0)	—	—	(189.0)	(166.9)	(355.9)
Dividends declared, $0.42 per share	—	—	—	(12.9)	—	(12.9)	(14.5)	(27.4)

Balance at June 30, 2014	38.7	$ 0.4	$ 511.1	$ (32.7)	$ —	$ 478.8	$ 272.2	$751.0

The accompanying notes are an integral part of the condensed consolidated and combined financial statements.

Table of Contents

CyrusOne Inc.
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(unaudited and in millions)

	Successor Six Months Ended June 30, 2014	Successor January 24, 2013 to June 30, 2013	Predecessor January 1, 2013 to January 23, 2013
Cash flows from operating activities:			
Net loss	$(2.9)	$(9.6)	$(20.2)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	57.4	39.4	5.3
Noncash interest expense	1.8	1.0	0.1
Stock-based compensation expense	5.0	3.0	0.2
Provision for bad debt write off	0.6	—	—
Deferred income tax expense, including valuation allowance charge	—	—	0.3
Loss on extinguishment of debt	—	1.3	—
Change in operating assets and liabilities, net of effect of acquisitions:			
Rent receivables and other assets	(31.4)	10.0	(9.6)
Accounts payable and accrued expenses	2.5	(19.1)	20.5
Deferred revenues	10.8	(3.2)	3.2
Due to affiliates	0.2	16.7	1.5
Other	—	—	0.7
Net cash provided by operating activities	44.0	39.5	2.0
Cash flows from investing activities:			
Capital expenditures – acquisitions of real estate	—	(26.6)	—
Capital expenditures – other development	(116.8)	(67.0)	(7.7)
Release of restricted cash	—	4.4	1.9
Net cash used in investing activities	(116.8)	(89.2)	(5.8)
Cash flows from financing activities:			
Issuance of common stock	355.9	360.5	—
Stock issuance costs	(0.5)	—	—
IPO costs	—	(23.4)	—
Acquisition of operating partnership units	(355.9)	—	—
Dividends paid	(24.0)	(10.3)	—
Payments on capital leases and other financing arrangements	(2.2)	(2.5)	(0.6)
Payments to buyout capital leases	—	(9.6)	—
Payments to buyout other financing arrangements	—	(10.2)	—
Contributions from parent, net	—	—	0.2
Net cash (used in) provided by financing activities	(26.7)	304.5	(0.4)
Net (decrease) increase in cash and cash equivalents	(99.5)	254.8	(4.2)
Cash and cash equivalents at beginning of period	148.8	12.3	16.5
Cash and cash equivalents at end of period	$49.3	$267.1	$12.3
Supplemental disclosures			
Cash paid for interest, net of amount capitalized	$20.5	$19.9	$0.3

Table of Contents

Capitalized interest	0.9	1.1	—
Acquisition of property in accounts payable and other liabilities	45.0	29.6	15.7
Assumed liabilities in buyout of other financing obligation lease	—	0.2	—
Contribution receivable from Parent related to transaction-related compensation	—	—	19.6
Dividends payable	13.7	10.3	—
Stock issuance costs	0.8	—	—
Deferred IPO costs	—	—	1.7
Deferred IPO costs reclassified to additional paid in capital	—	9.5	—

The accompanying notes are an integral part of the condensed consolidated and combined financial statements.

Table of Contents

CyrusOne LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited and in millions)

	As of June 30, 2014	As of December 31, 2013
Assets		
Investment in real estate:		
Land	$89.7	$89.3
Buildings and improvements	791.7	783.7
Equipment	298.8	190.2
Construction in progress	59.5	57.3
Subtotal	1,239.7	1,120.5
Accumulated depreciation	(280.6)	(236.7)
Net investment in real estate	959.1	883.8
Cash and cash equivalents	49.3	148.8
Rent and other receivables, net of allowance for doubtful accounts of $1.1 and $0.5 as of June 30, 2014, and December 31, 2013, respectively	61.5	41.2
Goodwill	276.2	276.2
Intangible assets, net of accumulated amortization of $63.6 and $55.1 as of June 30, 2014, and December 31, 2013, respectively	77.4	85.9
Due from affiliates	0.5	0.6
Other assets	82.1	70.3
Total assets	$1,506.1	$1,506.8
Liabilities and partnership capital		
Accounts payable and accrued expenses	$83.9	$66.8
Deferred revenue	66.7	55.9
Due to affiliates	7.4	8.5
Capital lease obligations	15.0	16.7
Long-term debt	525.0	525.0
Other financing arrangements	57.1	56.3
Total liabilities	755.1	729.2
Commitments and contingencies		
Partnership capital	751.0	777.6
Total liabilities and partnership capital	$1,506.1	$1,506.8

The accompanying notes are an integral part of the condensed consolidated and combined financial statements.

Table of Contents

CyrusOne LP
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(unaudited and in millions)

	Successor	Successor	Successor	Successor	Predecessor
	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	January 24, 2013 to June 30, 2013	January 1, 2013 to January 23, 2013
Revenue	$81.7	$63.6	$159.2	$108.6	$15.1
Costs and expenses:					
Property operating expenses	31.8	24.6	59.5	39.9	4.8
Sales and marketing	3.5	2.9	6.5	5.0	0.7
General and administrative	8.4	7.1	15.7	12.5	1.5
Depreciation and amortization	29.8	23.0	57.4	39.4	5.3
Transaction costs	0.8	0.4	0.9	0.4	0.1
Transaction-related compensation	—	—	—	—	20.0
Total costs and expenses	74.3	58.0	140.0	97.2	32.4
Operating income (loss)	7.4	5.6	19.2	11.4	(17.3)
Interest expense	10.7	10.8	21.4	19.2	2.5
Loss on extinguishment of debt	—	1.3	—	1.3	—
Net loss before income taxes	(3.3)	(6.5)	(2.2)	(9.1)	(19.8)
Income tax expense	(0.3)	(0.3)	(0.7)	(0.5)	(0.4)
Net loss	$(3.6)	$(6.8)	$(2.9)	$(9.6)	$(20.2)

The accompanying notes are an integral part of the condensed consolidated and combined financial statements.

Table of Contents

CyrusOne LP
CONDENSED CONSOLIDATED STATEMENT OF PARTNERSHIP CAPITAL
(unaudited and in millions)

	Partnership Units	Partnership Capital
Balance January 1, 2014	64.6	$777.6
Net loss	—	(2.9)
Compensation expense of CyrusOne Inc. allocated to Operating Partnership	—	5.0
Partnership units issued to CyrusOne Inc.	0.7	—
Partnership units purchased by CyrusOne Inc.	16.0	355.9
Partnership units sold by CBI	(16.0)	(355.9)
Distributions to CyrusOne Inc.	—	(1.3)
Partnership distributions	—	(27.4)
Balance at June 30, 2014	65.3	$751.0

The accompanying notes are an integral part of the condensed consolidated and combined financial statements.

Table of Contents

CyrusOne LP
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(unaudited and in millions)

	Successor	Successor	Predecessor
	Six Months Ended June 30, 2014	January 24, 2013 to June 30, 2013	January 1, 2013 to January 23, 2013
Cash flows from operating activities:			
Net loss	$(2.9)	$(9.6)	$(20.2)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	57.4	39.4	5.3
Noncash interest expense	1.8	1.0	0.1
Stock-based compensation expense	5.0	3.0	0.2
Provision for bad debt write off	0.6	—	—
Deferred income tax expense, including valuation allowance charge	—	—	0.3
Loss on extinguishment of debt	—	1.3	—
Change in operating assets and liabilities, net of effect of acquisitions:			
Rent receivables and other assets	(31.4)	10.0	(9.6)
Accounts payable and accrued expenses	2.5	(19.1)	20.5
Deferred revenues	10.8	(3.2)	3.2
Due to affiliates	0.2	16.7	1.5
Other	—	—	0.7
Net cash provided by operating activities	44.0	39.5	2.0
Cash flows from investing activities:			
Capital expenditures – acquisitions of real estate	—	(26.6)	—
Capital expenditures – other development	(116.8)	(67.0)	(7.7)
Release of restricted cash	—	4.4	1.9
Net cash used in investing activities	(116.8)	(89.2)	(5.8)
Cash flows from financing activities:			
Issuance of partnership units	—	337.1	—
Distributions paid	(24.0)	(10.3)	—
Payments on capital leases and other financing arrangements	(2.2)	(2.5)	(0.6)
Payments to buyout of capital leases	—	(9.6)	—
Payments to buyout other financing arrangements	—	(10.2)	—
Distributions to CyrusOne Inc.	(0.5)	—	—
Contributions from parent, net	—	—	0.2
Net cash (used in) provided by financing activities	(26.7)	304.5	(0.4)
Net (decrease) increase in cash and cash equivalents	(99.5)	254.8	(4.2)
Cash and cash equivalents at beginning of period	148.8	12.3	16.5
Cash and cash equivalents at end of period	$49.3	$267.1	$12.3
Supplemental disclosures			
Cash paid for interest, net of amount capitalized	$20.5	$19.9	$0.3
Capitalized interest	0.9	1.1	—
Acquisition of property in accounts payable and other liabilities	45.0	29.6	15.7
Assumed liabilities in buyout of other financing obligation lease	—	0.2	—

Table of Contents

Contribution receivable from Parent related to transaction-related compensation	—	—	19.6
Distribution payable	13.7	10.3	—
Other contributions from Parent	—	1.3	1.7
Distribution payable to CyrusOne Inc.	0.8	2.4	—

The accompanying notes are an integral part of the condensed consolidated and combined financial statements.

CyrusOne Inc. and CyrusOne LP
NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS - (unaudited)

1. Description of Business
CyrusOne Inc., together with CyrusOne GP, a wholly-owned subsidiary of CyrusOne Inc., through which CyrusOne Inc. holds a controlling interest in CyrusOne LP (the "Operating Partnership") and the subsidiaries of the Operating Partnership (collectively, "CyrusOne", "we", "us", "our", and the "Company") is an owner, operator and developer of enterprise-class, carrier-neutral data center properties. Our customers operate in a number of industries, including energy, oil and gas, mining, medical, technology, finance and consumer goods and services. We currently operate 25 data centers located in the United States, United Kingdom and Singapore.

2. Formation
Prior to November 20, 2012, CyrusOne was not an operative legal entity or a combination of legal entities. The data center assets and operations prior to such date were owned by Cincinnati Bell Inc. ("CBI") and, unless the context otherwise requires, its consolidated subsidiaries, which assets and operations historically have been maintained in various legal entities, some of which had significant unrelated business activities. On November 20, 2012, the Operating Partnership received a contribution of interests in real estate properties and the assumption of debt and other specified liabilities from CBI in exchange for the issuance of 123,688,687 operating partnership units to CBI.
On January 24, 2013, CyrusOne Inc. completed its initial public offering ("IPO") of common stock, issuing approximately 19.0 million shares for $337.1 million, net of underwriters' discounts. At that time the Operating Partnership executed a 2.8 to 1.0 reverse unit split, resulting in CBI owning 44.1 million Operating Partnership units. In addition, CBI exchanged approximately 1.5 million of its Operating Partnership units for 1.5 million shares of CyrusOne Inc. common stock, and CBI was issued 0.4 million shares of CyrusOne Inc. common stock in repayment for transaction costs paid by CBI. CyrusOne Inc. also issued approximately 1.0 million shares of restricted stock to its directors and employees. In addition, on January 24, 2013, CyrusOne Inc., together with CyrusOne GP, purchased approximately 21.9 million or 33.9% of the Operating Partnership's units for $337.1 million and through CyrusOne GP assumed the controlling interest in the Operating Partnership. CBI retained a noncontrolling interest in the Operating Partnership of 66.1%.
On June 25, 2014, CyrusOne Inc. completed a public offering of 15,985,000 shares of its common stock, including 2,085,000 shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares, at a price to the public of $23.25 per share or $371.7 million. CyrusOne Inc. used the proceeds of $355.9 million, net of underwriting costs of $15.8 million, to acquire 15,985,000 common units of limited partnership interests in the Operating Partnership from a subsidiary of CBI.
As of June 30, 2014, the total number of outstanding partnership units was 65.3 million and CBI holds a 40.8% noncontrolling interest in the Operating Partnership. CBI effectively owns approximately 43.7% of CyrusOne through its interest in outstanding shares of common stock of CyrusOne Inc. and its interest in the Operating Partnership units of CyrusOne LP.

3. Basis of Presentation
The accompanying financial statements as of June 30, 2014 and December 31, 2013, and for the three and six months ended June 30, 2014 and for the three months ended June 30, 2013 and for the period from January 24, 2013 to June 30, 2013, are prepared on a consolidated basis and are presented as the "Successor" financial statements. The financial statements for the period from January 1, 2013 to January 23, 2013 ("Predecessor Period") were prepared on a combined basis using CBI's historical basis in the assets and liabilities of its data center business and are presented as the "Predecessor" financial statements. The Predecessor financial statements include all revenues, costs, assets and liabilities directly attributable to the data center business. In addition, certain expenses reflected in the Predecessor financial statements include allocations of corporate expenses from CBI, which in the opinion of management are reasonable but do not necessarily reflect what CyrusOne's financial position, results of operations and cash flows would have been had CyrusOne been a stand-alone company during these respective periods. As a result, the Predecessor financial information is not necessarily indicative of CyrusOne's future results of operations, financial

position and cash flows.
In addition, the accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013, which was filed with the Securities and Exchange Commission (“SEC”) on March 3, 2014. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted from this report on Form 10-Q pursuant to the rules and regulations of the SEC.

It should also be noted that the results for the interim periods shown in this report are not necessarily indicative of future financial results and have not been audited by our independent registered public accounting firm. In the opinion of management, the accompanying unaudited condensed consolidated and combined financial statements include all adjustments necessary to present fairly our financial position as of June 30, 2014, and our results of operations, for the three and six months ended June 30, 2014, and the three months ended June 30, 2013 and the periods ended June 30, 2013 (January 24, 2013 to June 30, 2013) and January 23, 2013 (January 1, 2013 to January 23, 2013). These adjustments are of a normal recurring nature and consistent with the adjustments recorded to prepare the annual audited financial statements as of December 31, 2013.

4. Significant Accounting Policies

Use of Estimates—Preparation of the consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the condensed consolidated and combined financial statements and accompanying notes. These estimates and assumptions are based on management's knowledge of current events and actions that we may undertake in the future. Estimates are used in determining the fair value of leased real estate, the useful lives of real estate and other long-lived assets, future cash flows associated with goodwill and other long-lived asset impairment testing, deferred tax assets and liabilities and loss contingencies. Estimates were also utilized in the determination of historical allocations of shared employees' payroll, benefits and incentives and management fees. Actual results may differ from these estimates and assumptions.

Investments in Real Estate—Investments in real estate consist of land, buildings, improvements and integral equipment utilized in our data center operations. Real estate acquired from third parties has been recorded at its acquisition cost. Real estate acquired from CBI and its affiliates has been recorded at its historical cost basis. Additions and improvements which extend an asset's useful life or increase its functionality are capitalized and depreciated over the asset's remaining life. Maintenance and repairs are expensed as incurred.

When we are involved in the construction of structural improvements to leased property, we are deemed the accounting owner of the leased real estate. In these instances, we bear substantially all the construction period risk, including managing or funding construction. These transactions generally do not qualify for sale-leaseback accounting due to our continued involvement in these data center operations. At inception, the fair value of the real estate, which generally consists of a building shell and our associated obligation is recorded as construction in progress. As construction progresses the value of the asset and obligation increases by the fair value of the structural improvements. When construction is complete, the asset is placed in service and depreciation commences. Leased real estate is depreciated to the lesser of (i) its estimated fair value at the end of the term or (ii) the expected amount of the unamortized obligation at the end of the term. The associated obligation is presented as other financing arrangements in the accompanying condensed consolidated balance sheets.

When we are not deemed the accounting owner, we further evaluate leased real estate to determine whether the lease should be classified as a capital or operating lease. One of the following four characteristics must be present to classify a lease as a capital lease: (i) the lease transfers ownership of the property to the lessee by the end of the lease term, (ii) the lease contains a bargain purchase option, (iii) the lease term is equal to 75% or more of the estimated economic life of the leased property or (iv) the net present value of the lease payments are at least 90% of the fair value of the leased property.

Construction in progress includes direct and indirect expenditures for the construction and expansion of our data centers and is stated at its acquisition cost. Independent contractors perform substantially all of the construction and expansion efforts of our data centers. Construction in progress includes costs incurred under construction contracts including project management services, engineering and schematic design services, design development, construction services and other construction-related fees and services. Interest, property taxes and certain labor costs are also capitalized during the construction of an asset.

Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Useful lives range from nine to forty-eight years for buildings, three to twenty-five years for building improvements, and three to five years for equipment. Leasehold improvements are amortized over the shorter of the asset's useful life or the remaining lease term, including renewal options which are reasonably assured.

Management reviews the carrying value of long-lived assets, including intangible assets with finite lives, when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Examples of such indicators may include a significant adverse change in the extent to which or manner in which the property is being used, an accumulation of costs significantly in excess of the amount originally expected for acquisition or development, or a history of operating or cash flow losses. When such indicators exist, we review an estimate of the undiscounted future cash flows expected to result from the use of an asset (or group of assets) and its eventual disposition and compare such amount to its carrying amount. We consider factors such as future operating income, leasing demand, competition and other factors. If our undiscounted net cash flows indicate that we are unable to recover the carrying value of the asset, an impairment loss is recognized. An impairment loss is measured as the amount by which the asset's carrying value exceeds its estimated fair value. Impairment exists when the Company's net book value of real estate assets is greater than the estimated fair value. No such impairments were recognized for any period presented.

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

Goodwill—Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with business acquisitions. We perform impairment testing of goodwill, at the reporting unit level, on an annual basis or more frequently if indicators of potential impairment exist.

The fair value of our reporting unit was determined using a combination of market-based valuation multiples for comparable businesses and discounted cash flow analysis based on internal financial forecasts incorporating market participant assumptions. There were no impairments recognized for any of the periods presented.

Long-Lived and Intangible Assets—Intangible assets represent purchased assets that lack physical substance, but can be separately distinguished from goodwill because of contractual or other legal rights or because the asset is capable of being sold or exchanged, either on its own or in combination with a related contract, asset, or liability. Intangible assets with finite lives consist of trademarks, customer relationships, and a favorable leasehold interest.

There were no impairments recognized for any of the periods presented.

Rent and Other Receivables—Receivables consist principally of trade receivables from customers and are generally unsecured and due within 30 to 120 days. Unbilled receivables arise from services rendered but not yet billed. Expected credit losses associated with trade receivables are recorded as an allowance for uncollectible accounts. The allowance for uncollectible accounts is estimated based upon historic patterns of credit losses for aged receivables as well as specific provisions for certain identifiable, potentially uncollectible balances. When internal collection efforts on accounts have been exhausted, the accounts are written-off and the associated allowance for uncollectible accounts is reduced.

Deferred Costs—Deferred costs include both deferred leasing costs and deferred financing costs. Deferred costs are presented with other assets in the accompanying condensed consolidated and combined balance sheets. Leasing commissions incurred at the commencement of a new lease are capitalized and amortized over the term of the customer lease. Amortization of deferred leasing costs is presented with depreciation and amortization in the accompanying condensed consolidated and combined statements of operations. If a lease terminates prior to the expected term of the lease, the remaining unamortized cost is written off to amortization expense.

Deferred financing costs include costs incurred in connection with issuance of debt and the Credit Agreement (as defined below). These financing costs are capitalized and amortized over the term of the debt or Credit Agreement and are included as a component of interest expense.

Other Financing Arrangements—Other financing arrangements represent leases of real estate where we are involved in the construction of structural improvements to develop buildings into data centers. When we bear substantially all the construction period risk, such as managing or funding construction, we are deemed to be the accounting owner of the leased property and, at the lease inception date, we are required to record at fair value the property and associated liability on our condensed consolidated and combined balance sheet. These transactions generally do not qualify for sale-leaseback accounting due to our continued involvement in these data center operations.

Revenue Recognition—Colocation rentals are generally billed monthly in advance, and some contracts have escalating payments over the term of the contract. If rents escalate without the lessee gaining access to or control over additional leased space or power, and the lessee takes possession of, or controls the physical use of the property (including all contractually committed power) at the beginning of the lease term, the rental payments by the lessee are recognized as revenue on a straight-line basis over the term of the lease. If rents escalate because the lessee gains access to and control over additional leased space or power, revenue is recognized in proportion to the additional space or power in the years that the lessee has control over the use of the additional space or power. The excess of revenue recognized over amounts contractually due is recognized in other assets in the accompanying condensed consolidated and combined balance sheets.

Some of our leases are structured on a full-service gross basis in which the customer pays a fixed amount for both colocation rental and power. Other leases provide that the customer will be billed for power based upon actual usage which is separately metered. In both cases, this revenue is presented as revenue in the accompanying condensed consolidated and combined statements of operations. Power is generally billed one month in arrears, and an estimate of this revenue is accrued in the month that the associated costs are incurred. We generally are not entitled to reimbursements for real estate taxes, insurance or other operating expenses.

Revenue is recognized for services or products that are deemed separate units of accounting. When a customer makes an advance payment, which is not deemed a separate unit of accounting, deferred revenue is recorded. This revenue is recognized ratably over the expected term of the lease, unless the pattern of service suggests otherwise.

Certain customer leases require specified levels of service or performance. If we fail to meet these service levels, our customers may be eligible to receive credits on their contractual billings. These credits are recognized against revenue when an event occurs that gives rise to such credits.

Property Operating Expenses—Property operating expenses generally consist of electricity, salaries and benefits of data center operations personnel, real estate taxes, security, rent, insurance and other site operating and maintenance costs.

General and Administrative Expense—General and administrative expense consist of salaries and benefits of senior management and support functions, legal costs and consulting costs.

Sales and Marketing Expense—Sales and marketing expense is comprised of compensation and benefits associated with sales and marketing personnel as well as advertising and marketing costs.

Depreciation and Amortization Expense—Depreciation expense is recognized over the estimated useful lives of real estate applying the straight-line method. The useful life of leased real estate and leasehold improvements is the lesser of the economic useful life of the asset or the term of the lease, including optional renewal periods if renewal of the lease is reasonably assured. The residual value of leased real estate is estimated as the lesser of (i) the expected fair value of the asset at the end of the lease term or (ii) the expected amount of the unamortized liability at the end of the lease term. Estimated useful lives are periodically reviewed.

Amortization expense is recognized over the estimated useful lives of finite-lived intangibles. An accelerated method of amortization is utilized to amortize our customer relationship intangible, consistent with the benefit expected to be derived from this asset. We amortize trademarks, favorable leasehold interests, deferred leasing costs and deferred sales commissions over their estimated useful lives. The estimated useful life of trademarks and customer relationships is eight to 15 years. In addition, we have a favorable leasehold interest related to a land lease that is being amortized over the lease term of 56 years.

Transaction Costs—Transaction costs represent legal, accounting and professional fees incurred in connection with the formation transactions, our qualification as a real estate investment trust, or REIT and potential business combinations. Transaction costs are expensed as incurred.

Transaction-Related Compensation —During the period ended January 23, 2013, the Company received an allocated compensation charge from CBI of $20.0 million for the settlement of its long-term incentive plan associated with the completion of the IPO. The amount was determined by CBI and allocated to CyrusOne Inc. on January 23, 2013, and reflected as expense and contributed capital in the respective period.

Income Taxes—CyrusOne Inc. was included in CBI’s consolidated tax returns in various jurisdictions for the Predecessor period. In the accompanying financial statements, the Predecessor period reflects income taxes as if the Company was a separate stand-alone company. The income tax provision consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods. CyrusOne Inc. will elect to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), by making our REIT election upon the filing of our 2013 federal income tax return. Provided we qualify for taxation as a REIT and continue to meet the various qualification tests mandated under the Code, we are generally not subject to corporate level federal income tax on the earnings distributed currently to our shareholders. If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to federal income tax at regular corporate rates and any applicable alternative minimum tax.

While CyrusOne Inc. and the Operating Partnership do not pay federal income taxes, we are still subject to foreign, state and local income taxes in the locations in which we conduct business. Our taxable REIT subsidiaries (each a “TRS”) are also subject to federal and state income taxes to the extent they earn taxable income.

Deferred income taxes are recognized in certain entities. Deferred income taxes are provided for temporary differences in the bases between financial statement and income tax assets and liabilities. Deferred income taxes are recalculated annually at rates then in effect. Valuation allowances are recorded to reduce deferred tax assets to amounts that are more likely than not to be realized. The ultimate realization of the deferred tax assets depends upon our ability to generate future taxable income during the periods in which basis differences and other deductions become deductible and prior to the expiration of the net operating loss carryforwards.

CyrusOne Inc. and CyrusOne LP
NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS - (unaudited)

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction as well as various foreign, state and local jurisdictions. The Company's previous tax filings are subject to normal reviews by regulatory agencies until the related statute of limitations expires. With a few exceptions, the Company is no longer subject to U. S. federal, state or local examinations for years prior to 2010 and we have no liabilities for uncertain tax positions as of June 30, 2014.

Comprehensive Income (Loss)—Comprehensive income (loss) represents the change in net assets of a company from transactions and other events from non-owner sources. Comprehensive income (loss) comprises all components of net income and all components of other comprehensive income. As components of other comprehensive income (loss) were immaterial for all periods presented, comprehensive income (loss) is not presented.

Earnings Per Share—For all periods subsequent to January 23, 2013, we present earnings per share (“EPS”) data. Basic EPS includes only the weighted average number of common shares outstanding during the period. Diluted EPS includes the weighted average number of common shares and the dilutive effect of stock options, restricted stock and share unit awards and convertible subordinated notes outstanding during the period, when such instruments are dilutive.

All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are treated as participating in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted EPS must be applied.

Stock-Based Compensation—In conjunction with the IPO, our Board of Directors adopted the 2012 Long-Term Incentive Plan (“LTIP”). The LTIP is administered by the Board of Directors, or the plan administrator. Awards issuable under the LTIP include common stock, restricted stock, stock options and other incentive awards. The awards under the LTIP include the following:

- Restricted Shares - On January 24, 2013, CyrusOne Inc. issued approximately 1 million restricted shares to its employees, officers and members of the Company's Board of Directors in conjunction with CyrusOne's IPO. These restricted shares generally vest over three years. The per share grant date price was $19.00. In addition, from time to time, new employees and Board of Directors have been issued restricted shares. These restricted shares are issued at a price equal to share price on the grant date.
- Performance and Market Based Awards - On April 17, 2013 and February 7, 2014, the Company issued performance and market based awards in the form of options and/or restricted stock to certain employees and officers of the Company. Fifty percent of the restricted shares and stock options will vest annually based upon achieving certain performance criteria. The other fifty percent of the restricted shares and stock options will vest at the end of three years if certain market conditions are met. The fair value of these awards were determined using the Black-Scholes or Monte-Carlo model which use assumptions such as volatility, risk-free interest rate, and expected term of the awards. See Note 10 for additional details relating to these awards.
- Compensation expense for these awards is recognized over the vesting periods.

Fair Value Measurements—Fair value measurements are utilized in accounting for business combinations and testing of goodwill and other long-lived assets for impairment and disclosures. Fair value of financial and non-financial assets and liabilities is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for assets and liabilities, is as follows:

Level 1—Observable inputs for identical instruments such as quoted market prices;

Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs); and

Level 3—Unobservable inputs that reflect our determination of assumptions that market participants would use in pricing the asset or liability. These inputs are developed based on the best information available, including our own data.

Business Segments—Business segments are components of an enterprise for which separate financial information is available and regularly viewed by the chief operating decision maker to assess performance and allocate resources. Our chief operating decision maker, the Company's Chief Executive Officer, reviews our financial information on an aggregate basis. Furthermore, our data centers have similar economic characteristics and customers across all geographic locations, our service offerings have similar production processes, deliver services in a similar manner and use the same types of facilities and similar technologies. As a result, we have concluded that we have one reportable business segment.

Recently Issued Accounting Standards—In February, 2013, the Financial Accounting Standards Board ("FASB") issued amendments to provide guidance on the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in GAAP. The amendments are effective for fiscal years and interim periods within those years, beginning after December 15, 2013. The Company adopted this guidance in the first quarter of 2014 and has properly reflected the impact in the guarantor financial statements.

In May 2014, the FASB issued guidance that outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. This guidance requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures which are effective for interim and annual reporting periods in fiscal years that begin after December 15, 2016. We are currently evaluating the impact of the adoption of this guidance in our consolidated financial statements.

In June 2014, the FASB issued a guidance update for the presentation of stock compensation. This guidance requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. We are currently evaluating the impact of the adoption of this guidance in our consolidated financial statements.

CyrusOne Inc. and CyrusOne LP
NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS - (unaudited)

5. Investment in Real Estate
A schedule of our gross investment in real estate follows:

	June 30, 2014			December 31, 2013		
(dollars in millions)	Land	Building and Improvements	Equipment	Land	Building and Improvements	Equipment
West Seventh St., Cincinnati, OH (7th Street)	$0.9	$107.6	$12.1	$0.9	$107.6	$11.0
Parkway Dr., Mason, OH (Mason)	—	20.2	0.6	—	20.2	0.6
Industrial Rd., Florence, KY (Florence)	2.2	41.4	2.7	2.2	41.4	2.4
Goldcoast Dr., Cincinnati, OH (Goldcoast)	0.6	6.7	0.1	0.6	6.7	0.1
Knightsbridge Dr., Hamilton, OH (Hamilton)	—	49.2	3.6	—	49.2	3.6
E. Monroe St., South Bend, IN (Monroe St.)	—	2.5	0.1	—	2.5	—
Springer St., Lombard, IL (Lombard)	0.7	4.6	3.9	0.7	4.6	0.2
Crescent Circle, South Bend, IN (Blackthorn)	—	3.3	0.2	—	3.3	0.2
Kingsview Dr., Lebanon, OH (Lebanon)	4.0	76.8	4.5	4.0	71.7	2.2
McAuley Place, Blue Ash, OH (Blue Ash)	—	0.6	0.1	—	0.6	—
Westway Park Blvd., Houston, TX (Houston West 1)	1.4	84.4	42.8	1.4	84.4	39.4
Westway Park Blvd., Houston, TX (Houston West 2)	2.0	22.5	43.5	2.0	22.4	15.8
Westway Park Blvd., Houston, TX (Houston West 3)	18.4	—	—	18.3	—	—
Southwest Fwy., Houston, TX (Galleria)	—	68.5	14.2	—	68.4	13.3
E. Ben White Blvd., Austin, TX (Austin 1)	—	22.5	1.2	—	22.5	1.2
S. State Highway 121 Business, Lewisville, TX (Lewisville)	—	77.2	21.7	—	77.0	20.3
Marsh Lane, Carrollton, TX (Marsh Ln)	—	0.1	0.6	—	0.1	0.5
Midway Rd., Carrollton, TX (Midway)	—	2.0	0.4			