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CyrusOne Inc.
Form 10-Q
October 31, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

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.)

CyrusOne Inc.

(Exact name of registrant as specified in its charter)

Maryland (CyrusOne Inc.) 46-0691837

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) 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.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

There were 83,525,459 shares of common stock outstanding as of October 27, 2016 with a par value of \$0.01 per share.

EXPLANATORY NOTE

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, a Maryland limited partnership. 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, 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 beneficial owner and sole trustee of CyrusOne GP (the sole general partner of CyrusOne LP), a Maryland statutory trust, issuing public equity from time to time and guaranteeing certain debt of CyrusOne LP and certain of its subsidiaries. CyrusOne Inc. itself does not issue any indebtedness but guarantees the debt of CyrusOne LP and certain of its subsidiaries, as disclosed in this report. CyrusOne LP and its subsidiaries hold substantially all the assets of the Company. CyrusOne LP conducts the operations of the business, along with its subsidiaries, 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.

As of September 30, 2016, the total number of outstanding shares of common stock was 83.5 million and our former parent, Cincinnati Bell Inc. (CBI) owned less than 5.0% of the outstanding common stock of CyrusOne Inc. On December 31, 2015, CyrusOne Inc. completed an exchange of all the operating partnership units of CyrusOne LP owned, directly or indirectly, by CBI for an equal number of shares of common stock of CyrusOne Inc. As a result, CyrusOne Inc., directly or indirectly, owns all the operating partnership units of CyrusOne LP. As the direct or indirect owner of all the operating partnership units of CyrusOne LP and as 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.

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CyrusOne Inc.

CONSOLIDATED BALANCE SHEETS

(unaudited)

IN MILLIONS, except share and per share amounts

As of	September 30, 2016	December 31, 2015
Assets		
Investment in real estate:		
Land	\$ 143.1	\$ 93.0
Buildings and improvements	1,009.3	905.3
Equipment	976.9	598.2
Construction in progress	304.0	231.1
Subtotal	2,433.3	1,827.6
Accumulated depreciation	(546.4)	(435.6)
Net investment in real estate	1,886.9	1,392.0
Cash and cash equivalents	11.0	14.3
Rent and other receivables (net of allowance for doubtful accounts of \$2.0 and \$1.0 as of September 30, 2016 and December 31, 2015, respectively)	73.0	76.1
Restricted cash	—	1.5
Goodwill	455.1	453.4
Intangible assets (net of accumulated amortization of \$105.2 and \$90.6 as of September 30, 2016 and December 31, 2015, respectively)	155.8	170.3
Other assets	114.5	88.0
Total assets	\$ 2,696.3	\$ 2,195.6
Liabilities and equity		
Accounts payable and accrued expenses	\$ 214.6	\$ 136.6
Deferred revenue	72.5	78.7
Capital lease obligations	11.9	12.2
Long-term debt, net	1,065.7	996.5
Lease financing arrangements	141.9	150.0
Total liabilities	1,506.6	1,374.0
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 83,524,905 and 72,556,334 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	0.8	0.7
Additional paid in capital	1,408.9	967.2
Accumulated deficit	(218.8)	(145.9)
Accumulated other comprehensive loss	(1.2)	(0.4)
Total stockholders' equity	1,189.7	821.6
Total liabilities and equity	\$ 2,696.3	\$ 2,195.6

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

CyrusOne Inc.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

IN MILLIONS, except share and per share data

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Revenue	\$ 143.8	\$ 111.2	\$ 391.7	\$ 286.0
Costs and expenses:				
Property operating expenses	54.6	42.2	139.7	107.3
Sales and marketing	4.7	3.2	12.9	8.9
General and administrative	13.9	12.5	42.8	31.5
Depreciation and amortization	50.6	39.1	134.6	101.6
Transaction and acquisition integration costs	1.2	1.8	3.9	11.5
Asset impairments and loss on disposal	—	4.9	—	13.5
Total costs and expenses	125.0	103.7	333.9	274.3
Operating income	18.8	7.5	57.8	11.7
Interest expense	13.8	12.1	37.4	29.2
Net income (loss) before income taxes	5.0	(4.6	) 20.4	(17.5
Income tax expense	(0.6	) (0.7	) (1.3	) (1.5
Net income (loss)	4.4	(5.3	) 19.1	(19.0
Noncontrolling interest in net loss	—	(0.7	) —	(4.6
Net income (loss) attributed to common stockholders	\$ 4.4	\$ (4.6	) \$ 19.1	\$ (14.4
Basic weighted average common shares outstanding	80.6	64.3	77.0	50.6
Diluted weighted average common shares outstanding	81.3	64.3	77.6	50.6
Income (loss) per share - basic and diluted	\$ 0.05	\$ (0.08	) \$ 0.24	\$ (0.30
Dividends declared per share	\$ 0.380	\$ 0.315	\$ 1.140	\$ 0.945

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

CyrusOne Inc.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (unaudited)

IN MILLIONS

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net income (loss)	\$ 4.4	\$ (5.3)	\$ 19.1	\$ (19.0)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(0.7)	(0.4)	(0.8)	(0.4)
Comprehensive income (loss)	3.7	(5.7)	18.3	(19.4)
Comprehensive loss attributable to noncontrolling interests	—	(0.7)	—	(4.6)
Comprehensive income (loss) attributable to CyrusOne Inc.	\$ 3.7	\$ (5.0)	\$ 18.3	\$ (14.8)

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

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CyrusOne Inc.
CONSOLIDATED STATEMENTS OF EQUITY
(unaudited)

IN MILLIONS	Stockholder's Equity/Parent's Net Investment					Total Stockholders' Equity/ Parent's Net Investment	Non- controlling Interest	Total Equity
	Shares of Common Stock Outstanding	Common Stock	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss			
Balance January 1, 2015	38.7	\$ 0.4	\$ 516.5	\$ (55.9)	\$ (0.3)	\$ 460.7	\$ 256.3	\$ 717.0
Net loss	—	—	—	(19.0)	—	(19.0)	—	(19.0)
Noncontrolling interest allocated net loss	—	—	—	4.6	—	4.6	(4.6)	—
Stock issuance costs	—	—	(0.8)	—	—	(0.8)	—	(0.8)
Stock based compensation	0.3	—	10.5	—	—	10.5	—	10.5
Tax payment upon exercise of equity awards	—	—	(0.8)	—	—	(0.8)	—	(0.8)
Issuance of common stock	27.3	0.2	799.1	—	—	799.3	—	799.3
Redemption of noncontrolling interest	—	—	(412.2)	—	—	(412.2)	(184.2)	(596.4)
Foreign currency translation adjustment	—	—	—	—	(0.4)	(0.4)	—	(0.4)
Dividends and distributions, \$0.945 per share	—	—	—	(54.0)	—	(54.0)	(14.3)	(68.3)
Balance at September 30, 2015	66.3	\$ 0.6	\$ 912.3	\$ (124.3)	\$ (0.7)	\$ 787.9	\$ 53.2	\$ 841.1
Balance January 1, 2016	72.6	\$ 0.7	\$ 967.2	\$ (145.9)	\$ (0.4)	\$ 821.6	\$ —	\$ 821.6
Net income	—	—	—	19.1	—	19.1	—	19.1
Stock issuance costs	—	—	(1.6)	—	—	(1.6)	—	(1.6)
Stock based compensation	0.6	—	8.5	—	—	8.5	—	8.5
Tax payment upon exercise of equity awards	(0.5)	—	(13.7)	—	—	(13.7)	—	(13.7)
Issuance of common stock	10.8	0.1	448.5	—	—	448.6	—	448.6
Foreign currency translation adjustment	—	—	—	—	(0.8)	(0.8)	—	(0.8)
Dividends, \$1.14 per share	—	—	—	(92.0)	—	(92.0)	—	(92.0)
Balance at September 30, 2016	83.5	\$ 0.8	\$ 1,408.9	\$ (218.8)	\$ (1.2)	\$ 1,189.7	\$ —	\$ 1,189.7

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

CyrusOne Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
IN MILLIONS

	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Cash flows from operating activities:		
Net income (loss)	\$ 19.1	\$ (19.0)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	134.6	101.6
Non-cash interest expense	11.1	2.3
Stock-based compensation expense	8.5	10.5
Provision for bad debt	0.9	0.3
Asset impairments and loss on disposal	—	13.5
Change in operating assets and liabilities:		
Rent receivables and other assets	(29.0)	(16.9)
Accounts payable and accrued expenses	2.6	9.9
Deferred revenues	(6.2)	0.8
Due to affiliates	—	(1.5)
Net cash provided by operating activities	141.6	101.5
Cash flows from investing activities:		
Capital expenditures – purchase of fixed assets	(131.1)	(17.3)
Capital expenditures – other development	(425.4)	(140.9)
Business acquisition, net of cash acquired	—	(398.4)
Changes in restricted cash	1.5	—
Net cash used in investing activities	(555.0)	(556.6)
Cash flows from financing activities:		
Issuance of common stock	448.6	799.3
Stock issuance costs	(1.6)	(0.8)
Acquisition of operating partnership units	—	(596.4)
Dividends paid	(82.8)	(58.3)
Borrowings from credit facility	530.0	220.0
Payments on credit facility	(460.0)	—
Proceeds from issuance of debt	—	103.8
Payments on capital leases and lease financing arrangements	(6.8)	(3.8)
Payment of note payable	(1.5)	—
Debt issuance costs	(2.1)	(5.4)
Tax payment upon exercise of equity awards	(13.7)	—
Net cash provided by financing activities	410.1	458.4
Net increase (decrease) in cash and cash equivalents	(3.3)	3.3
Cash and cash equivalents at beginning of period	14.3	36.5
Cash and cash equivalents at end of period	\$ 11.0	\$ 39.8
Supplemental disclosures		
Cash paid for interest, net of amount capitalized	\$ 33.4	\$ 21.4
Cash paid for income taxes	1.2	2.5
Capitalized interest	6.8	4.2
Non-cash investing and financing activities		

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Acquisition and development of properties in accounts payable and other liabilities	117.7	37.9
Dividends payable	33.6	23.5
Debt issuance costs	—	0.3

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

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CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

1. Description of Business

CyrusOne Inc., together with CyrusOne GP, a wholly owned subsidiary of CyrusOne Inc., through which CyrusOne Inc. wholly owns 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, multi-tenant data center properties. Our customers operate in a number of industries, including information technology, financial services, energy, oil and gas, mining, medical and consumer goods and services. We currently operate 35 data centers and 2 recovery centers located in the United States, United Kingdom and Singapore.

2. Formation and Recent Developments

Formation

On January 24, 2013, CyrusOne Inc. completed its initial public offering (the IPO) of common stock, issuing approximately 19.0 million shares for \$337.1 million, net of underwriting discounts. 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, which prior to the IPO and the related transactions held 100% of the operating partnership's units, retained a noncontrolling interest in the operating partnership of 66.1%.

The Company completed public offerings in June 2014, April 2015, June 2015, March 2016 and August 2016 of 16.0 million, 14.3 million, 13.0 million, 6.9 million and 3.4 million shares of its common stock, respectively. The Company received \$355.9 million, \$426.0 million, \$373.3 million, \$255.0 million and \$164.8 million net proceeds from the public offerings in June 2014, April 2015, June 2015, March 2016 and August 2016, respectively.

On December 14, 2015, CyrusOne Inc. completed a public secondary offering of 1.4 million shares of common stock on behalf of CBI. The Company received no proceeds from the offering. On December 31, 2015, CyrusOne Inc. completed an issuance of approximately 6.3 million newly issued shares of common stock in exchange for an equal number of operating partnership units of CyrusOne LP, held by a subsidiary of CBI. As of September 30, 2016, CBI owned less than 5.0% of the common stock of CyrusOne Inc. All of the 83.5 million outstanding operating partnership units of CyrusOne LP are owned, directly or indirectly, by CyrusOne Inc.

Recent Developments

On March 17, 2016, CyrusOne LP entered into a first amended and restated credit agreement (the Credit Agreement) which amended and restated in its entirety the credit agreement governing its senior unsecured revolving credit facility and senior unsecured term loan facility, originally dated as of October 9, 2014. The Credit Agreement provided for an additional \$250.0 million senior unsecured term loan facility in addition to the existing senior unsecured term loan facility and senior unsecured revolving credit facility. CyrusOne LP borrowed \$250.0 million under the additional senior unsecured term loan facility and used the proceeds to repay a portion of the amount outstanding under the revolving credit facility.

On March 21, 2016, CyrusOne Inc. completed a public offering of 6.9 million shares of its common stock for \$255.0 million, net of underwriting discounts of approximately \$10.6 million. CyrusOne LP used the proceeds to acquire the Chicago-Aurora I data center from CME Group for \$131.1 million and to fund its development pipeline. During the first quarter of 2016, the Company issued \$0.9 million of common shares related to the exercise of stock options and \$0.1 million of common shares related to the employee stock purchase plan. In total, offerings of common stock during the first quarter of 2016 resulted in \$256.0 million of cash flow from financing activities on the consolidated statements of cash flows.

On May 2, 2016, CyrusOne Inc. and CyrusOne GP amended and restated the Agreement of Limited Partnership of CyrusOne LP (Amended LP Agreement) to reflect that CBI and its subsidiaries have ceased to be partners or hold any partnership interests in CyrusOne LP and therefore have no rights under the Amended LP Agreement. The Amended LP Agreement also effects certain changes to clarify language, comply with or conform to Maryland and partnership tax law and make various technical corrections and ministerial changes.

On May 4, 2016, CyrusOne Inc. filed a Form S-3 with the SEC as a "well-known seasoned issuer" ("WKSI") using an automatic shelf registration process. Under this process, CyrusOne Inc. or any selling security holders may sell any combination of the securities described in the registration statement from time to time in one or more offerings in amounts to be determined at the time of any offering.

On July 1, 2016, the Company filed a prospectus supplement and entered into sales agreements (the Sales Agreements) with each of Raymond James & Associates, Inc., Jefferies LLC, KeyBanc Capital Markets Inc., Merrill Lynch, Pierce, Fenner & Smith

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

Incorporated and SunTrust Robinson Humphrey, Inc., as sales agents, pursuant to which CyrusOne Inc. may issue and sell from time to time shares of its common stock having an aggregate gross sales price of up to \$320.0 million, pursuant to an “at the market” program. Sales of shares of CyrusOne Inc. common stock under the Sales Agreements are made by means of ordinary brokers’ transactions on the NASDAQ Global Select Market or otherwise at market prices prevailing at the time of sale, at prices related to prevailing market prices or, subject to specific instructions of CyrusOne Inc., at negotiated prices. During the three months ended September 30, 2016, the Company sold 0.5 million shares of its common stock under this program, generating net proceeds of approximately \$26.3 million after giving effect to sales agent commissions of \$0.3 million.

On August 15, 2016, CyrusOne Inc. completed a public offering of 3.4 million shares of its common stock for \$164.8 million, net of underwriting discounts of approximately \$6.9 million. CyrusOne Inc. contributed the net proceeds from the sale of its shares to its operating partnership in exchange for an equivalent number of newly issued operating partnership units (the August OP Contribution and Issuance). CyrusOne LP has used and intends to use the proceeds from the August OP Contribution and Issuance to fund growth capital expenditures related to recently signed leases, to repay borrowings under its senior unsecured revolving credit facility, and for general corporate purposes, which may include funding future acquisitions, investments or capital expenditures. In connection with this offering, on August 10, 2016, CyrusOne Inc. entered into (a) a forward sale agreement with Goldman, Sachs & Co. (the Forward Sale Agreement) with respect to 3.4 million shares of its common stock, and (b) an additional forward sale agreement with Goldman, Sachs & Co. (the Additional Forward Sale Agreement, and together with the Forward Sale Agreement, the Forward Sale Agreements) with respect to 1.0 million shares of its common stock in connection with the underwriters' exercise of their option to purchase these shares.

Pursuant to the terms of the Forward Sale Agreements, and subject to CyrusOne Inc.’s right to elect cash or net share settlement under the Forward Sale Agreements, CyrusOne Inc. intends to issue and sell, upon physical settlement of such Forward Sale Agreements, 4.4 million shares of its common stock to Goldman, Sachs & Co. in exchange for cash proceeds per share equal to the applicable forward sale price, which was initially \$48.48 per share and is subject to certain adjustments as provided in the applicable forward sale agreement. CyrusOne Inc. expects to physically settle the Forward Sale Agreements in full, which settlement or settlements will occur on or before August 1, 2017.

3. Basis of Presentation

The accompanying financial statements as of September 30, 2016 and December 31, 2015, and for the three and nine months ended September 30, 2016 and September 30, 2015, are prepared on a consolidated basis.

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, 2015, which was filed with the Securities and Exchange Commission (SEC) on February 26, 2016. 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.

Results for the interim periods 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 consolidated financial statements include all adjustments necessary to present fairly our consolidated financial statements as of September 30, 2016, and for the three and nine months ended September 30, 2016 and 2015. 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, 2015, except as described in the following paragraph. All amounts reflected are in millions except share and per share data.

During the third quarter of 2016, the Company identified certain immaterial errors relating to prior periods where Depreciation and amortization and Interest expense were understated. In the third quarter of 2016, we corrected the cumulative amount of these errors which resulted in additional Depreciation and amortization of \$2.6 million and related Interest expense of \$1.1 million.

4. Significant Accounting Policies

Use of Estimates—Preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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, including purchase price allocations for business combinations, 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. Actual results may differ from these estimates and assumptions.

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

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. As we have substantially all of the construction risks, we are deemed the "owner" of the asset under construction for accounting purposes during the construction period, and are therefore required to capitalize the construction costs on the accompanying consolidated balance sheets. At inception, the fair value of the building (excluding land) is recorded as an asset and the construction and modification costs to the building, which are not funded by us, would be recorded as a liability. As construction progresses, the value of the asset and obligation increases by the fair value of the structural improvements. At completion of the construction, Sales-Leaseback Accounting under ASC 840-40-25 is also evaluated. Due to our continuing involvement with the lessor, Sales-Leaseback Accounting is precluded and the liability is not derecognized. When the asset is placed in service, depreciation commences, and the 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 Lease financing arrangements in the accompanying consolidated balance sheets.

When we are not deemed the accounting owner of leased real estate, we further evaluate the lease to determine whether it 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 thirty years for buildings, three to thirty years for building improvements, and three to twenty 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.

For the nine months ended September 30, 2015, we recognized impairments of \$9.2 million related to the Austin 1 lease termination. There were no impairments recognized for the nine months ended September 30, 2016.

Business Combinations—The Company applies the purchase method for business combinations, where all tangible and identifiable intangible assets acquired and all liabilities assumed are recorded at fair value. Any excess purchase price

is recorded as goodwill. Transaction costs associated with business combinations are expensed as incurred. Revenues and the results of operations of the acquired business are included in the accompanying consolidated financial statements commencing on the date of acquisition.

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.

Restricted Cash—Restricted cash includes cash equivalents held to collateralize standby letters of credit and/or deposited in escrow to fund construction or pending potential acquisition transactions. In addition, we may have other cash that is not immediately available for use in current operations.

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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 goodwill 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.

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 doubtful accounts. The allowance for doubtful 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 doubtful accounts is reduced.

Deferred Leasing Costs—Deferred leasing costs are presented with Other assets in the accompanying consolidated 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 consolidated statements of operations. If a lease terminates prior to the expiration of the lease, the remaining unamortized cost is written off to amortization expense. As of September 30, 2016 and December 31, 2015, deferred leasing costs were \$22.1 million and \$14.2 million, respectively.

Deferred Financing Costs—Deferred financing costs include costs incurred in connection with issuance of debt, including our senior notes, term loans and revolving credit facilities. These costs include deferred financing costs associated with our revolving line of credit and are presented in the balance sheet as a direct reduction from the carrying amount of the debt liability. These financing costs are deferred and amortized to expense over the term of the instrument and are included as a component of Interest expense.

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 periods 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 consolidated 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 rent 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 consolidated 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. Generally, we receive an administrative fee when we manage the meters for our customers.

Revenue is recognized for services or products that are deemed separate units of accounting. When a customer makes an advance payment or they are contractually obligated to pay any amounts in advance, 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. As of September 30, 2016 and December 31, 2015, Deferred revenue was \$72.5 million and \$78.7 million, respectively.

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.

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A provision for doubtful accounts is recognized when the collection of contractual rent, straight-line rent or customer reimbursements are deemed to be uncollectible.

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. Depreciation expense was \$44.2 million and \$115.5 million for the three and nine months ended September 30, 2016, respectively, and \$32.1 million and \$84.8 million for the three and nine months ended September 30, 2015, respectively.

Amortization expense is recognized over the estimated useful lives of finite-lived intangibles. Finite-lived intangibles include trademarks, customer relationships, favorable leasehold interests and deferred leasing costs. As of September 30, 2016, the estimated remaining weighted average useful life of trademarks and customer relationships was 10 and 13 years, respectively. In addition, we have a favorable leasehold interest related to a land lease that is being amortized over the lease term of 51 years. Deferred leasing costs are amortized over 3 to 5 years. Amortization expense was \$6.4 million and \$19.1 million for the three and nine months ended September 30, 2016, respectively, and \$7.0 million and \$16.8 million for the three and nine months ended September 30, 2015, respectively.

Transaction and Acquisition Integration Costs—Transaction costs represent incremental 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 and do not include any recurring costs from our ongoing operations. Integration costs represent incremental costs to integrate a consummated acquisition.

Income Taxes—The income tax provision consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods. CyrusOne Inc. has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the Code), commencing with our initial taxable year ending December 31, 2013. Provided we 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 stockholders. 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, and we may not be able to qualify as a REIT for four subsequent taxable years.

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 basis 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.

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 2012, and we have no liabilities for uncertain tax positions as of September 30, 2016.

Earnings Per Share—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 outstanding during the period, when such instruments are dilutive. Diluted EPS also includes the dilutive impact of shares issuable under the forward sales agreement using the treasury stock method.

All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are treated as participating in undistributed earnings with common stockholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted EPS is applied. The forward contract entered into in August 2016 is not a participating security.

Stock-Based Compensation—In conjunction with the IPO, our board of directors adopted the 2012 Long-Term Incentive Plan, (LTIP) which was amended and restated by our stockholders on May 2, 2016. The LTIP is administered by the compensation committee of the board of directors, or the plan administrator. Awards issuable under the LTIP include common stock, restricted stock, stock options and other incentive awards. See Note 10 for additional details relating to these awards.

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Share-based compensation expense is based on the estimated grant-date fair value. CyrusOne Inc. recognizes share-based compensation expense, less estimated forfeitures, on a straight-line basis over the requisite service period for time-based awards and on a graded vesting basis for performance-based awards. CyrusOne estimates forfeitures based on historical activity, expected employee turnover, and other qualitative factors which are adjusted for changes in estimates and award vesting. All expenses for an award will be recognized by the time it becomes fully vested. CyrusOne Inc. uses the Black-Scholes-Merton option pricing model to calculate the fair value of stock options. This option valuation model requires the use of subjective assumptions, including the estimated fair value of the underlying common stock, the expected stock price volatility, and the expected term of the option. The estimated fair value of the underlying common stock is based on third-party valuations. Our volatility estimates are based on a peer group of companies. We estimate the expected term of the awards to be the weighted average mid-point between the vesting date and the end of the contractual term. We use this method to estimate the expected term since we do not have sufficient historical exercise data.

For interim periods, we use our year-to-date actual results, financial forecasts, and other available information to estimate the probability of the award vesting based on the performance metrics.

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, and 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—Accounting Standards Update (ASU) No. 2014-09 (ASU 2014-09), Revenue from Contracts with Customers (Topic 606)

In May 2014, the Financial Accounting Standards Board (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. In July 2015, the FASB voted to approve a one-year deferral of the effective date to December 15, 2017 for interim and annual reporting periods beginning after that date and permitted early adoption of the standard, but not before the original effective date of December 15, 2016. This guidance permits two implementation approaches. Companies can choose to apply the standard retrospectively to each prior reporting period presented (full retrospective application) or retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application (modified retrospective application). We are currently evaluating the impact of the adoption of this guidance on our consolidated financial statements.

ASU No. 2016-01 (ASU 2016-01), Financial instruments-Overall (Subtopic 825-10)

In January 2016, the FASB amended its standards related to the accounting of certain financial instruments. This amendment addresses certain aspects of recognition, measurement, presentation and disclosure. The new rules will become effective for annual and interim periods beginning after December 15, 2017. Early adoption is not permitted. We are in the process of evaluating the impact the amendment will have on the consolidated financial statements.

ASU No. 2016-02 (ASU 2016-02), Leases (Topic 842)

In February 2016, the FASB issued accounting standard update (ASU) No. 2016-02, Leases (Topic 842). This new lease guidance requires that an entity should recognize assets and liabilities for leases with a maximum possible term of more than 12 months. A lessee would recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the leased asset (the underlying asset) for the lease term. Leases would be classified as either Type A leases (generally today's capital leases) or Type B leases (generally today's operating leases). For certain leases of assets other than property (for example, equipment, aircraft, cars, trucks), a lessee would classify the lease as a Type A lease and would do the following: (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments and (2) recognize the unwinding of the discount on the lease liability as interest separately from the amortization of the right-of-use asset. For certain leases of property (that is, land and/or a building or part of a building), a lessee would classify the lease as a Type B lease and would do the following: (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of lease payments and (2) recognize a single lease cost, combining the unwinding of the discount on the lease liability with the amortization of the right-of-use asset, on a straight-line basis. This guidance also provides accounting updates with respect to lessor accounting under a

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lease arrangement. This new lease guidance is effective for CyrusOne beginning in the first quarter of fiscal 2019. Entities have the option of using either a full retrospective or a modified approach to adopt the new guidance. Early adoption is permitted for all entities. We are currently evaluating the impact of the adoption of this guidance in our consolidated financial statements.

ASU No. 2016-09 (ASU 2016-09), Improvements to Employee Share-Based Payment Accounting (Subtopic 718)

In March 2016, the FASB issued guidance which simplifies several aspects of the accounting for employee share-based payment transactions for both public and nonpublic entities, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective for annual periods beginning after December 15, 2016, including interim periods within those annual reporting periods. Early adoption is permitted. We are currently evaluating the full impact of the new standard.

ASU No. 2016-12 (ASU 2016-12), Revenue from Contracts with Customers (Subtopic 606)

In May 2016, the FASB issued guidance which amends certain aspects of the Board's new revenue standard, ASU 2014-09. The amendments include the collectibility of revenue, presentation of sales tax and other similar taxes collected from customers, contracts containing noncash considerations, and contract modifications and completed contracts at transition. The effective date and transition provisions are aligned with the requirements of ASU 2014-09 (as described above). We are currently evaluating the full impact of the new standard.

ASU No. 2016-13 (ASU 2016-13), Measurement of Credit Losses on Financial Instruments (Subtopic 326)

In June 2016, the FASB issued guidance which requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected. The amendments affect entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The amendments affect loans, debt securities, trade receivables, net investments in leases, off-balance-sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The guidance is effective for annual periods beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the full impact of the new standard.

ASU No. 2016-15 (ASU 2016-15), Classification of Certain Cash Receipts and Cash Payments (Subtopic 230)

In August 2016, the FASB issued guidance which addresses the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. The guidance is effective for annual periods beginning after December 15, 2017. Early adoption is permitted. We are currently evaluating the full impact of the new standard.

5. Purchase of Fixed Assets

On March 31, 2016, CyrusOne LP purchased CME Group's Chicago-Aurora I data center in Aurora, Illinois for \$131.1 million, including transaction related costs, in an all cash transaction. CyrusOne LP financed the purchase with proceeds of CyrusOne Inc.'s March 2016 common stock offering. The purchase enhances the geographic diversification of CyrusOne, provides access to a high quality enterprise customer base and strengthens our product portfolio. The transaction adds to CyrusOne Inc.'s existing data center platform an approximately 428,000 square-foot facility data center serving the Chicago metropolitan region. In addition, CyrusOne acquired approximately 15 acres of land directly adjacent to the data center for future development.

On April 1, 2016, the CME Group entered into a 15-year lease for data center space at the Aurora facility. The agreement is expected to enhance the range of services available to the Company and CME Group's mutual customers through connectivity, hosting and data offerings.

Other than the Aurora purchase, during the nine months ended September 30, 2016, the Company purchased four properties for development for approximately \$54.5 million.

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6. Long-Term Debt, Capital Lease Obligations and Lease Financing Arrangements

Long-term debt, Capital lease obligations and Lease financing arrangements presented in the accompanying consolidated financial statements consist of the following:

IN MILLIONS

As of	September 30, 2016	December 31, 2015
Credit facilities:		
Revolving credit facility	\$ 55.0	\$ 235.0
Term loan	550.0	300.0
6.375% senior notes due 2022, including bond premium	477.4	477.6
Notes payable	—	1.5
Deferred financing costs	(16.7)	(17.6)
Long-term debt	1,065.7	996.5
Capital lease obligations	11.9	12.2
Lease financing arrangements	141.9	150.0
Total	\$ 1,219.5	\$ 1,158.7

Credit Facility—On March 17, 2016, CyrusOne LP entered into a first amended and restated credit agreement (the Credit Agreement) which amended and restated in its entirety the 2014 Credit Facility, as amended previously. The Credit Agreement provides for an additional \$250.0 million senior unsecured term loan facility (the Additional Term Loan) in addition to the existing \$300.0 million Initial Term Loan and the existing \$650.0 million Revolving Credit Facility. The Credit Agreement has an accordion feature under which CyrusOne LP may request an increase in the total commitments up to an amount not to exceed \$250.0 million. Deferred financing costs of \$2.1 million related to the Additional Term Loan were recorded as of September 30, 2016.

The Revolving Credit Facility is scheduled to mature in October 2018 and includes a one-year extension option, which if exercised by CyrusOne LP would extend the maturity date to October 2019. The Initial Term Loan is scheduled to mature in October 2019. The Additional Term Loan is scheduled to mature in September 2021. The Revolving Credit Facility currently bears interest at a rate per annum equal to LIBOR plus 1.70% and the Initial Term Loan and the Additional Term Loan currently bear interest at a rate per annum equal to LIBOR plus 1.65%.

We pay commitment fees for the unused amount of borrowings on the Revolving Credit Facility and letter of credit fees on any outstanding letters of credit. The commitment fees are equal to 0.25% per annum of the actual daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations. Commitment fees related to the Credit Agreement were \$0.4 million and \$0.3 million for the three months ended September 30, 2016 and 2015, respectively. Commitment fees related to the Credit Agreement were \$1.1 million and \$0.6 million for the nine months ended September 30, 2016 and 2015, respectively.

6.375% Senior Notes due 2022—On November 20, 2012, CyrusOne LP and CyrusOne Finance Corp. (Issuers) issued \$525.0 million of 6.375% senior notes due 2022 (6.375% senior notes). The 6.375% senior notes are senior unsecured obligations of the Issuers, which rank equally in right of payment with all existing and future unsecured senior debt of the Issuers. The 6.375% senior notes are effectively subordinated to all existing and future secured indebtedness of the Issuers to the extent of the value of the assets securing such indebtedness. The 6.375% senior notes are fully and unconditionally and jointly and severally guaranteed by CyrusOne Inc., CyrusOne GP, and each of CyrusOne LP's existing and future domestic wholly owned subsidiaries, subject to certain exceptions. Each such guarantee is a senior unsecured obligation of the applicable guarantor, ranking equally with all existing and future unsecured senior debt of such guarantor and effectively subordinated to all existing and future secured indebtedness of such guarantor to the extent of the value of the assets securing that indebtedness. The 6.375% senior notes are structurally subordinated to all liabilities (including trade payables) of each subsidiary of the Issuers that does not guarantee the senior notes. The 6.375% senior notes bear interest at a rate of 6.375% per annum, payable semi-annually on May 15 and November 15 of each year.

The 6.375% senior notes will mature on November 15, 2022. However, prior to November 15, 2017, the Issuers may, at their option, redeem some or all of the 6.375% senior notes at a redemption price equal to 100% of the principal amount of the 6.375% senior notes being redeemed, together with accrued and unpaid interest, if any, to the date of redemption plus a “make-whole” premium. On or after November 15, 2017, the Issuers may, at their option, redeem some or all of the 6.375% senior notes at any time at declining redemption prices equal to (i) 103.188% beginning on November 15, 2017, (ii) 102.125% beginning on

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November 15, 2018, (iii) 101.063% beginning on November 15, 2019 and (iv) 100.000% beginning on November 15, 2020 and thereafter, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. In addition, before November 15, 2015, and subject to certain conditions, the Issuers may, at their option, redeem up to 35% of the aggregate principal amount of the 6.375% senior notes with the net proceeds of certain equity offerings at a redemption price equal to 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption; provided that (i) at least 65% of the aggregate principal amount of the 6.375% senior notes remains outstanding after the redemption and (ii) the redemption occurs within 90 days of the closing of any such equity offering.

In November and December of 2014, we repurchased a portion of our 6.375% senior notes with an aggregate face value of \$150.2 million for a purchase price of \$163.0 million, including accrued and unpaid interest. This resulted in a loss on extinguishment of debt of \$12.8 million.

On July 1, 2015, the Issuers closed a private offering of \$100.0 million aggregate principal amount of the 6.375% senior notes (New Notes) plus a premium of \$3.8 million. The New Notes were issued as additional notes under the Indenture dated November 20, 2012 as supplemented by the first supplemental indenture dated July 1, 2015, and the New Notes have terms substantially identical to those of the 6.375% senior notes issued in November 2012. On December 29, 2015, all notes issued on July 1, 2015 were exchanged for registered notes.

Debt Covenants —The Credit Agreement requires us to maintain certain financial covenants including the following, in each case on a consolidated basis:

- A minimum fixed charge ratio;
- Maximum total and secured leverage ratios;
- A minimum tangible net worth ratio;
- A maximum secured recourse indebtedness ratio;
- A minimum unencumbered debt yield ratio; and
- A maximum ratio of unsecured indebtedness to unencumbered asset value.

Notwithstanding these limitations, we will be permitted, subject to the terms and conditions of the Credit Agreement, to distribute to our stockholders cash dividends in an amount not to exceed 95% of our Funds From Operations (FFO), as defined in the Credit Agreement for any period. Similarly, our indenture permits dividends and distributions necessary for us to maintain our status as a REIT.

The Company's most restrictive covenants are generally included in the Credit Agreement. In order to continue to have access to amounts available to it under the Credit Agreement, the Company must remain in compliance with all covenants.

The indenture governing the 6.375% senior notes contains affirmative and negative covenants customarily found in indebtedness of this type, including a number of covenants that, among other things, restrict, subject to certain exceptions, the Company's ability to: incur secured or unsecured indebtedness; pay dividends or distributions on its equity interests, or redeem or repurchase equity interests of the Company; make certain investments or other restricted payments; enter into transactions with affiliates; enter into agreements limiting the ability of the operating partnership's subsidiaries to pay dividends or make certain transfers and other payments to the operating partnership or to other subsidiaries; sell assets; and merge, consolidate or transfer all or substantially all of the operating partnership's assets. Notwithstanding the foregoing, the covenants contained in the indenture do not restrict the Company's ability to pay dividends or distributions to stockholders to the extent (i) no default or event of default exists or is continuing under the indenture and (ii) the Company believes in good faith that we qualify as a REIT under the Code and the payment of such dividend or distribution is necessary either to maintain its status as a REIT or to enable it to avoid payment of any tax that could be avoided by reason of such dividend or distribution. The Company and its subsidiaries are also required to maintain total unencumbered assets of at least 150% of their unsecured debt on a consolidated basis, provided that for the purposes of such calculation their revolving credit facility shall be treated as unsecured indebtedness, in each case subject to certain qualifications set forth in the indenture.

As of September 30, 2016, we believe we were in compliance with all covenants.

Notes payable—The Company's note payable for approximately \$1.4 million with a third-party for installation of electrical infrastructure at one of the Company's locations was repaid in July 2016.

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Deferred financing costs—Deferred financing costs are costs incurred in connection with obtaining long-term financing. Deferred financing costs were incurred in connection with the issuance of the Revolving Credit Facility, the Initial Term Loan, the Existing Term Loan and 6.375% senior notes due 2022. As of September 30, 2016 and December 31, 2015, deferred financing costs totaled \$16.7 million and \$17.6 million, respectively. Deferred financing costs related to the senior notes are amortized using the effective interest method over the term of the related indebtedness.

Deferred financing costs related to the Revolving Credit Facility and Initial Term Loan and Additional Term Loan are amortized using the straight-line method. Amortization of deferred financing costs, included in Interest expense in the consolidated statements of operations totaled \$1.0 million and \$3.0 million for the three and nine months ended September 30, 2016, respectively, and \$1.0 million and \$2.4 million for the three and nine months ended September 30, 2015, respectively.

Capital lease obligations—We use leasing as a source of financing for certain of our data center facilities and related equipment. We currently operate eight data center facilities under leases recognized as capital leases. We have options to extend the initial lease term on all but one of these leases.

Lease financing arrangements—Lease financing arrangements represent leases of real estate in which 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 balance sheet. These transactions generally do not qualify for sale-leaseback accounting due to our continued involvement in these data center operations.

Interest expense on Capital lease obligations and Lease financing arrangements was \$3.4 million and \$8.3 million for the three and nine months ended September 30, 2016, respectively, and \$2.5 million and \$5.2 million for the three and nine months ended September 30, 2015, respectively.

7. Fair Value of Financial Instruments

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 at the measurement date under current market conditions. 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.

The fair value of Cash and cash equivalents, Restricted cash, Rent and other receivables, Accounts payable and accrued expenses approximate their carrying value because of the short-term nature of these instruments.

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The carrying value and fair value of other financial instruments are as follows:

IN MILLIONS

As of	September 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
6.375% senior notes due 2022	\$477.4	\$ 506.3	\$477.6	\$ 493.8
Revolving credit facility and term loans	605.0	605.0	535.0	535.0
Note payable	—	—	1.5	1.2

The fair value of our 6.375% senior notes as of September 30, 2016 and December 31, 2015 was based on the quoted market price for these notes, which is considered Level 1 of the fair value hierarchy. The carrying value of the Revolving Credit Facility, the Initial Term Loan and the Additional Term Loan approximates estimated fair value as of September 30, 2016, due to the variability of interest rates and the stability of our credit ratings. The fair value of the note payable at December 31, 2015, was calculated using a discounted cash flow model that incorporates current borrowing rates for obligations of similar duration. These fair value measurements are considered Level 3 of the fair value hierarchy.

8. Noncontrolling Interest - Operating Partnership

The following table shows the ownership interests as of September 30, 2016 and 2015, and the portion of net income (loss) and distributions for the nine months ended September 30, 2016 and 2015:

IN MILLIONS

As of	September 30, 2016		September 30, 2015	
	The Company	CBI	The Company	CBI
Operating partnership units	83.5	—	66.3	6.3
Ownership %	100.0%	—%	91.3%	8.7%
Portion of net income (loss)	19.1	—	(14.4)	(4.6)
Distributions	(92.0)	—	(54.0)	(14.3)

Prior to the IPO, 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 123.7 million operating partnership units of CyrusOne LP to CBI. Subsequent to December 31, 2012, CyrusOne LP executed a 2.8 to 1.0 reverse unit split, resulting in CBI owning 44.1 million operating partnership units. On January 24, 2013, CBI exchanged 1.5 million operating partnership units for common shares of CyrusOne Inc.

After the IPO on January 24, 2013, CBI retained a noncontrolling interest in the operating partnership of 66.1%. The Company completed public offerings in 2014 and 2015 in which the proceeds were used to acquire the limited partnership interests in the operating partnership from CBI.

As of December 31, 2015, CBI owned approximately 9.5% of the Company's common stock, and all of the operating partnership units of CyrusOne LP were owned, directly or indirectly, by the Company.

CyrusOne Inc. had no noncontrolling interests as of September 30, 2016, and CBI owned less than 5.0% of the Company's common stock.

9. Dividends

On August 1, 2016, we announced a regular cash dividend of \$0.38 per common share payable to stockholders of record at the close of business on September 30, 2016. The dividends were paid on October 14, 2016.

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

10. Stock-Based Compensation Plans

Stock-based compensation expense was as follows:

IN MILLIONS

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Founders	\$ —	\$ 1.4	\$ 0.3	\$ 4.0
2013 Grants	—	0.2	0.1	0.6
2014 Grants	0.3	0.7	0.9	2.0
2015 Grants	1.2	2.0	3.1	3.9
2016 Grants	0.8	—	4.1	—
Total	\$ 2.3	\$ 4.3	\$ 8.5	\$ 10.5

In conjunction with the IPO, the board of directors of CyrusOne Inc. adopted the LTIP. On May 2, 2016, our stockholders approved the amended and restated LTIP. The LTIP is administered by the board of directors. Awards issuable under the LTIP include common stock, restricted stock, stock options and other incentive awards. CyrusOne Inc. has reserved a total of 8.9 million shares of CyrusOne Inc. common stock for issuance pursuant to the LTIP, which may be adjusted for changes in capitalization and certain corporate transactions. To the extent that an award, if forfeitable, expires, terminates or lapses, or an award is otherwise settled in cash without the delivery of shares of common stock to the participant, then any unpaid shares subject to the award will be available for future grant or issuance under the LTIP. The payment of dividend equivalents in cash in conjunction with any outstanding awards will not be counted against the shares available for issuance under the LTIP. The related stock compensation expense incurred by CyrusOne Inc. is allocated to the operating partnership. Shares available under the LTIP at September 30, 2016, were approximately 5.8 million. Shares vest according to each agreement and as long as the employee remains employed with the Company. The Company uses the Black-Scholes option-pricing model for time and performance-based options and a Monte Carlo simulation for market-based awards. Compensation expense is measured based on the estimated grant-date fair value. Expense for time-based grants is recognized under a straight-line method. For market-based grants, expense is recognized under a graded expense attribution method. For performance-based grants, expense is recognized under a graded expense attribution method if it is probable that the performance targets will be achieved.

Founders Grants

On January 24, 2013, the Company granted 1.0 million shares of time-based restricted stock, which had an aggregate value of \$19.0 million on the grant date. Holders of the restricted stock have all of the rights and privileges of stockholders including but not limited to the right to vote, receive dividends and distributions upon liquidation of CyrusOne. These shares vested on January 24, 2016.

2013 Grants

On April 17, 2013, the Company issued performance and market-based awards under the LTIP in the form of stock options and restricted stock. The grant date fair value of the restricted stock was \$23.58 per share.

For these awards, vesting was tied 50% to the achievement of cumulative EBITDA targets and 50% to a market-based performance measure. These awards generally vest annually over a three-year period upon the achievement of cumulative EBITDA targets. The first two years are capped at 100% of the target with a cumulative true-up in year three. The portion of the award tied to market-based measures cliff vest at the end of three years upon the achievement of the applicable targets.

There were additional shares of time-based restricted stock issued during 2013 that cliff vest at the end of three years. The stock option awards have a contractual life of 10 years from the award date and were granted with an exercise price equal to \$23.58 per share.

The holders of restricted stock shall have all of the rights and privileges of stockholders including the right to vote. Any dividends paid with respect to the shares shall be accrued by the Company and distributed on the vesting date provided that the applicable performance goal has been attained. As of September 30, 2016, there was no unearned compensation representing the unvested portion of the awards granted during 2013.

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

2014 Grants

On February 7, 2014, the Company issued performance and market-based awards under the LTIP in the form of restricted stock. The grant date fair value of the restricted stock was \$20.65 per share.

For these awards, vesting was tied 50% to the achievement of cumulative Adjusted EBITDA targets and 50% to a market-based performance measure. These awards generally vest annually over a three-year period upon the achievement of cumulative Adjusted EBITDA targets. The first two years are capped at 100% of the target with a cumulative true-up in year three. The portion of the award tied to market-based measures cliff vest at the end of three years upon the achievement of the applicable targets.

There were additional shares of time-based restricted stock issued during 2014 that cliff vest at the end of three years. As of September 30, 2016, unearned compensation representing the unvested portion of the awards granted during 2014, net of forfeitures, totaled \$0.4 million, with a weighted average vesting period of 0.4 years.

2015 Grants

On February 10, 2015, the Company issued time, performance and market-based awards under the LTIP in the form of stock options and restricted stock. The grant date fair value of the restricted stock was \$28.42 per share.

Twenty-five percent of the restricted stock awards are subject to time-based vesting and seventy-five percent of the restricted stock awards are equally split between performance-based and market-based vesting.

The time-based restricted stock awards vest pro-rata annually over three years. The performance and market-based restricted stock awards vest annually based upon the achievement of certain criteria for each of the three-year measurement periods. The first two years are capped at 100% of the target with a cumulative true-up in year three.

The stock options are time-based and vest annually on a pro-rata basis over 3 years. The stock option awards have a contractual life of 10 years from the award date and were granted with an exercise price equal to \$28.44. There were additional time and performance-based restricted stock issued and options granted during 2015. These awards generally vest annually over a three year period or cliff vest at the end of three years based on the employee's agreement.

As of September 30, 2016, unearned compensation representing the unvested portion of the awards granted in 2015, net of forfeitures, totaled \$3.5 million, with a weighted average vesting period of 1.1 years.

2016 Grants

On January 29, 2016, the Company issued time, performance and market-based awards under the LTIP in the form of restricted stock. The grant date fair value of the shares was \$36.85 per share. On February 1, 2016, the Company issued time-based restricted stock awards to Board members, and the grant date fair value of the restricted stock was \$36.99 per share. The Company also issued a total of 587,536 shares of restricted stock. The Company issued stock options on February 1, 2016. The stock option awards have a contractual life of 10 years from the award date and were granted with an exercise price equal to \$36.99. The Company issued 222,461 options with a grant date fair value of \$6.99. In addition, on May 2, 2016, the Company issued 7,275 time-based restricted stock awards under the LTIP to a Board member and various employees.

The time-based restricted stock awards generally vest pro-rata annually over a three-year period. The performance and market-based restricted stock awards vest annually based upon the achievement of certain criteria for each of the three-year measurement periods. The first two years are capped at 100% of the target with a cumulative true-up in year three. Certain employees were also awarded time-based restricted stock that cliff vest at the end of three years. The stock options are time-based and vest annually on a pro-rata basis over 3 years.

As of September 30, 2016, unearned compensation representing the unvested portion of the awards granted in 2016, net of forfeitures, totaled \$14.0 million, with a weighted average vesting period of 1.8 years.

11. Income (Loss) per Share

Basic income (loss) per share is calculated using the weighted average number of shares of common stock outstanding during the period. In addition, net income (loss) applicable to participating securities and the related participating securities are excluded from the computation of basic income (loss) per share.

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

Diluted income (loss) per share is calculated using the weighted average number of shares of common stock outstanding during the period, including restricted stock outstanding and shares contingently issuable under the forward sales agreement. If there is net income during the period, the dilutive impact of common stock equivalents outstanding would also be reflected.

The following table reflects the computation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2016 and 2015:

IN MILLIONS, except per share amounts

	Three Months Ended September 30, 2016		Three Months Ended September 30, 2015		Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Numerator:								
Net income (loss) attributed to common stockholders	\$4.4	\$4.4	\$(4.6)	\$(4.6)	\$19.1	\$19.1	\$(14.4)	\$(14.4)
Less: Restricted stock dividends	(0.2)	(0.2)	(0.3)	(0.3)	(0.5)	(0.5)	(0.8)	(0.8)
Net income (loss) available to stockholders	\$4.2	\$4.2	\$(4.9)	\$(4.9)	\$18.6	\$18.6	\$(15.2)	\$(15.2)
Denominator:								
Weighted average common outstanding-basic	80.6	80.6	64.3	64.3	77.0	77.0	50.6	50.6
Performance-based restricted stock ⁽¹⁾		0.5		—		0.6		—
Contingently issuable securities ⁽²⁾		0.2		—		—		—
Weighted average shares outstanding-diluted		81.3		64.3		77.6		50.6
EPS:								
Net income (loss) per share-basic	\$0.05		\$(0.08)		\$0.24		\$(0.30)	
Effect of dilutive shares:								
Net income (loss) per share-diluted		\$0.05		\$(0.08)		\$0.24		\$(0.30)

⁽¹⁾ We have excluded 0.8 million weighted average shares of restricted stock, and 15.4 million of operating partnership units which are securities convertible into our common stock, from our diluted earnings per share as of September 30, 2015. These amounts were deemed anti-dilutive.

⁽²⁾ Includes the dilutive impact of shares issuable under the forward sales agreement using the treasury stock method.

12. Related Party Transactions

Prior to November 20, 2012, CyrusOne Inc., CyrusOne GP, CyrusOne LP and its subsidiaries were operated by CBI. The consolidated financial statements reflect the following transactions with CBI and its affiliated entities, including Cincinnati Bell Telephone (CBT) and Cincinnati Bell Technology Solutions (CBTS).

Revenues—The Company records revenues from CBI under contractual service arrangements. These services include leasing of data center space, power and cooling in certain of our data center facilities, network interface services and office space.

Operating Expenses—The Company records expenses from CBI incurred in relation to network support, services calls, monitoring and management, storage and backup, IT systems support, and connectivity services.

Total revenues were \$5.3 million and \$16.5 million for the three and nine months ended September 30, 2015, respectively. Total operating costs and expenses were \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2015, respectively.

At December 31, 2015, CBI owned 9.5% of the outstanding common stock of CyrusOne Inc. and no operating partnership units, at which point it ceased to be a related party of CyrusOne Inc. As of September 30, 2016, CBI owned less than 5.0% of the outstanding common stock of CyrusOne Inc.

The dividends payable as of September 30, 2016, reflect the balance due to subsidiaries of CBI related to the dividend and distribution announced on August 1, 2016 of \$0.38 per share based on CBI's ownership of common shares of

CyrusOne Inc. as of the Record Date of September 30, 2016.

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CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

13. Income Taxes

CyrusOne Inc. elected to be taxed as a REIT under the Code, commencing with our taxable year ended December 31, 2013. To remain qualified as a REIT, we are required to distribute at least 90% of our taxable income to our stockholders and meet various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we continue to qualify for taxation as a REIT, we are generally not subject to corporate level federal income tax on the earnings distributed currently to our stockholders. It is our policy and intent, subject to change, to distribute 100% of our taxable income and therefore no provision is required in the accompanying financial statements for federal income taxes with regards to activities of CyrusOne Inc. and its subsidiary pass-through entities.

We have elected to designate two subsidiaries as taxable REIT subsidiaries (each a TRS). A TRS may perform services for our tenants that would otherwise be considered impermissible for REITs. The income generated from these services is taxed at federal and state corporate rates. 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. Income tax expense was \$0.6 million and \$1.3 million for the three and nine months ended September 30, 2016, respectively, and \$0.7 million and \$1.5 million for the three and nine months ended September 30, 2015, respectively.

For certain entities we calculate deferred tax assets and liabilities for temporary differences in the basis 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. Deferred tax assets (net of valuation allowance) and liabilities were accrued, as necessary, for the periods ended September 30, 2016 and December 31, 2015. Historically, we have recorded a full valuation allowance on our foreign net deferred tax assets related to our foreign generated net operating losses due to the uncertainty of their realization. In 2013 and 2014, management determined it was necessary to record a full valuation allowance on all of our domestic and foreign net deferred tax assets due to the uncertainty of their realization. Accordingly, at September 30, 2016 and December 31, 2015, the net domestic and foreign deferred tax assets were zero.

14. Guarantors

CyrusOne Inc.

CyrusOne LP and CyrusOne Finance Corp., as “LP Co-issuer” and “Finance Co-issuer,” respectively (together, the Issuers), had \$477.4 million aggregate principal amount of 6.375% senior notes outstanding, including bond premium, at September 30, 2016. As of September 30, 2016, the 6.375% senior notes are fully and unconditionally and jointly and severally guaranteed on a senior basis by CyrusOne Inc. (Parent Guarantor), CyrusOne GP (General Partner), and CyrusOne LP’s wholly owned subsidiaries, CyrusOne LLC, CyrusOne TRS Inc., CyrusOne Foreign Holdings LLC, Cervalis Holdings LLC, and Cervalis LLC (such subsidiaries, together the Guarantor Subsidiaries). None of CyrusOne LP’s subsidiaries organized outside of the United States (collectively, the Non-Guarantor Subsidiaries) guarantee the 6.375% senior notes. Subject to the provisions of the indenture governing the 6.375% senior notes, in certain circumstances, a Guarantor may be released from its guarantee obligation, including:

- upon the sale or other disposition (including by way of consolidation or merger) of such Guarantor or of all of the capital stock of such Guarantor such that such Guarantor is no longer a restricted subsidiary under the indenture,
- upon the sale or disposition of all or substantially all of the assets of the Guarantor,
- upon the LP Co-issuer designating such Guarantor as an unrestricted subsidiary under the terms of the indenture, if such Guarantor is no longer a guarantor or other obligor of any other indebtedness of the LP Co-issuer or the Parent Guarantor, and
- upon the defeasance or discharge of the 6.375% senior notes in accordance with the terms of the indenture.

The entity structure of each Issuer and guarantor of the 6.375% senior notes is described below.

CyrusOne Inc. – CyrusOne Inc. was formed on July 31, 2012. As of January 23, 2013, CyrusOne Inc. was a wholly owned subsidiary of CBI. Effective January 24, 2013, CyrusOne Inc. completed its IPO of common stock for net proceeds of \$337.1 million, and together with the General Partner, purchased a 33.9% ownership interest in CyrusOne LP. CyrusOne Inc. is a guarantor or Parent Guarantor and became a separate registrant with the SEC upon completion of its IPO.

CyrusOne GP – CyrusOne GP was formed on July 31, 2012, and is a wholly owned subsidiary of CyrusOne Inc. Effective upon completion of CyrusOne Inc.'s IPO, this entity became the general partner and 1% owner of CyrusOne LP and has no other assets or operations. Prior to the IPO, this entity did not incur any obligations or record any transactions.

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

Issuers – The Issuers are CyrusOne LP and CyrusOne Finance Corp. CyrusOne Finance Corp., a wholly owned subsidiary of CyrusOne LP, was formed for the sole purpose of acting as co-issuer of the 6.375% senior notes and has no other assets or operations. CyrusOne LP, in addition to being the co-issuer of the 6.375% senior notes, is also the 100% owner, either directly or indirectly, of the Guarantor Subsidiaries and Non-Guarantor Subsidiaries.

Guarantor Subsidiaries – The guarantors of the 6.375% senior notes include CyrusOne LLC, CyrusOne TRS Inc., CyrusOne Foreign Holdings LLC, Cervalis and Cervalis LLC (the Guarantor Subsidiaries) agreed to provide unconditional guarantees of the issuers' obligations under the 6.375% senior notes. The guarantee of each Guarantor Subsidiary is (i) a senior unsecured obligation of such Guarantor Subsidiary, (ii) pari passu in right of payment with any existing and future unsecured senior indebtedness of such Guarantor Subsidiary, (iii) senior in right of payment to any future subordinated indebtedness of such Guarantor Subsidiary and (iv) effectively subordinated in right of payment to all existing and future secured indebtedness of such Guarantor Subsidiary, to the extent of the value of the collateral securing that indebtedness. CyrusOne LLC, together with CyrusOne Foreign Holdings LLC, directly or indirectly, owns 100% of the Non-Guarantor Subsidiaries.

Non-Guarantor Subsidiaries consist of wholly owned subsidiaries which conduct operations in the United Kingdom and Singapore, as well as CyrusOne Government Services LLC, a Delaware limited liability company and wholly owned subsidiary of CyrusOne LP.

The following schedules present the balance sheets as of September 30, 2016 and December 31, 2015, and the statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2016 and September 30, 2015, and the statements of cash flows for the nine months ended September 30, 2016 and September 30, 2015 for the Parent Guarantor, General Partner, LP Co-issuer, Finance Co-issuer, Guarantor Subsidiaries and Non-Guarantor Subsidiaries.

The consolidating statements of cash flows for the nine months ended September 30, 2016, includes the acquisition of Cervalis in July 2015. The results for Cervalis are included in the Guarantor Subsidiaries financial statements subsequent to the acquisition.

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

Consolidating Balance Sheets

IN MILLIONS

As of September 30, 2016

	Parent Guarantor	General Partner	LP Co-issuer	Finance Co-issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations/ Consolidation Adjustments	Totals
Land	\$—	\$—	\$—	\$—	\$ -143.1	\$ —	\$ —	\$143.1
Buildings and improvements	—	—	—	—	973.0	36.1	0.2	1,009.3
Equipment	—	—	—	—	972.3	1.0	3.6	976.9
Construction in progress	—	—	—	—	303.0	0.1	0.9	304.0
Subtotal	—	—	—	—	2,391.4	37.2	4.7	2,433.3
Accumulated depreciation	—	—	—	—	(539.1)	(7.3)	—	(546.4)
Net investment in real estate	—	—	—	—	1,852.3	29.9	4.7	1,886.9
Cash and cash equivalents	—	—	—	—	9.4	1.6	—	11.0
Investment in subsidiaries	1,199.9	12.0	1,360.9	—	2.1	—	(2,574.9)	—
Rent and other receivables	—	—	—	—	71.7	1.3	—	73.0
Intercompany receivable	18.7	—	935.5	—	—	0.5	(954.7)	—
Goodwill	—	—	—	—	455.1	—	—	455.1
Intangible assets, net	—	—	—	—	155.8	—	—	155.8
Other assets	—	—	—	—	111.8	2.7	—	114.5
Total assets	\$1,218.6	\$12.0	\$2,296.4	\$—	\$-2,658.2	\$36.0	\$ (3,524.9)	\$2,696.3
Accounts payable and accrued expenses	\$33.6	\$—	\$12.1	\$—	\$-168.2	\$0.7	\$—	\$214.6
Deferred revenue	—	—	—	—	71.8	0.7	—	72.5
Intercompany payable	—	—	18.7	—	936.0	—	(954.7)	—
Capital lease obligations	—	—	—	—	6.2	5.7	—	11.9
Long-term debt	—	—	1,065.7	—	—	—	—	1,065.7
Lease financing arrangements	—	—	—	—	115.1	26.8	—	141.9
Total liabilities	33.6	—	1,096.5	—	1,297.3	33.9	(954.7)	1,506.6
Total stockholders' equity	1,185.0	12.0	1,199.9	—	1,360.9	2.1	(2,570.2)	1,189.7
Total liabilities and equity	\$1,218.6	\$12.0	\$2,296.4	\$—	\$-2,658.2	\$36.0	\$ (3,524.9)	\$2,696.3

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

IN MILLIONS

As of December 31, 2015

	Parent Guarantor	General Partner	LP Co-issuer	Finance Co-issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations/ Consolidation	Totals
Land	\$—	\$—	\$—	\$—	\$93.0	\$—	\$—	\$93.0
Buildings and improvements	—	—	—	—	865.6	39.6	0.1	905.3
Equipment	—	—	—	—	594.7	0.9	2.6	598.2
Construction in progress	—	—	—	—	229.8	0.1	1.2	231.1
Subtotal	—	—	—	—	1,783.1	40.6	3.9	1,827.6
Accumulated depreciation	—	—	—	—	(426.0)	(9.6)	—	(435.6)
Net investment in real estate	—	—	—	—	1,357.1	31.0	3.9	1,392.0
Cash and cash equivalents	—	—	—	—	10.4	3.9	—	14.3
Investment in subsidiaries	817.7	8.2	850.6	—	0.7	—	(1,677.2)	—
Restricted cash	—	—	—	—	1.5	—	—	1.5
Rent and other receivables	—	—	—	—	74.8	1.3	—	76.1
Intercompany receivable	—	—	991.3	—	—	—	(991.3)	—
Goodwill	—	—	—	—	453.4	—	—	453.4
Intangible assets, net	—	—	—	—	170.3	—	—	170.3
Other assets	—	—	—	—	85.3	2.7	—	88.0
Total assets	\$817.7	\$8.2	\$1,841.9	\$—	\$2,153.5	\$38.9	\$ (2,664.6)	\$2,195.6
Accounts payable and accrued expenses	\$—	\$—	\$29.2	\$—	\$106.8	\$0.6	\$—	\$136.6
Deferred revenue	—	—	—	—	78.0	0.7	—	78.7
Intercompany payable	—	—	—	—	991.3	—	(991.3)	—
Capital lease obligations	—	—	—	—	6.1	6.1	—	12.2
Long-term debt	—	—	995.0	—	1.5	—	—	996.5
Lease financing arrangements	—	—	—	—	119.2	30.8	—	150.0
Total liabilities	—	—	1,024.2	—	1,302.9	38.2	(991.3)	1,374.0
Total stockholders' equity	817.7	8.2	817.7	—	850.6	0.7	(1,673.3)	821.6
Total liabilities and equity	\$817.7	\$8.2	\$1,841.9	\$—	\$2,153.5	\$38.9	\$ (2,664.6)	\$2,195.6

CyrusOne Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

Consolidating Statements of Operations and Comprehensive Income (Loss)

IN MILLIONS Three Months Ended September 30, 2016

	Parent Guarantor	General Partner	LP Co-issuer	Finance Co-issuer	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations/ Consolidations	Total
Revenue	\$	\$-	—					