

CyrusOne Inc.  
Form 10-Q  
November 06, 2015  
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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, 2015

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

For the transition period \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-35789 (CyrusOne Inc.)

Commission File Number: 333-188426 (CyrusOne LP)

CyrusOne Inc.

CyrusOne LP

(Exact name of registrant as specified in its charter)

Maryland (CyrusOne Inc.)

46-0691837

Maryland (CyrusOne LP)

46-0982896

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

1649 West Frankford Road, Carrollton, TX 75007

(Address of Principal Executive Offices) (Zip Code)

(972) 350-0060

(Registrant's telephone number, including area  
code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

CyrusOne Inc. Yes  No

CyrusOne LP Yes  No

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

CyrusOne Inc. Yes  No

CyrusOne LP 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.

CyrusOne Inc.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

CyrusOne LP

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

CyrusOne Inc. Yes  No

CyrusOne LP Yes  No

CyrusOne Inc.

There were 66,245,906 shares of common stock outstanding as of September 30, 2015 with a par value of \$0.01 per share.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2015 of CyrusOne Inc., a Maryland corporation, and CyrusOne LP, a Maryland limited partnership, of which CyrusOne GP, a Maryland statutory trust of which CyrusOne Inc. is the sole beneficial owner and sole trustee, is the sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” “our Company” or “the Company” refer to CyrusOne Inc. together with its consolidated subsidiaries, including CyrusOne LP. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to CyrusOne LP together with its consolidated subsidiaries.

CyrusOne Inc. is a real estate investment trust, or REIT, and the sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner of CyrusOne LP. As of September 30, 2015, the total number of outstanding shares of common stock and operating partnership units was 72.6 million. As of September 30, 2015, our former parent, Cincinnati Bell Inc. (“CBI”) owned approximately 11.3% of CyrusOne through its 2.6% interest in the outstanding shares of common stock of CyrusOne Inc. and its 8.7% noncontrolling interest in the common units of the limited partnership interest of CyrusOne LP that may be exchanged by CBI for common stock. As the sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner of CyrusOne LP, CyrusOne Inc. has the full, exclusive and complete responsibility for the operating partnership's day-to-day management and control.

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

- enhancing investors' understanding of our Company and our operating partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;

- eliminating duplicative disclosure and providing a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the operating partnership; and

- creating time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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

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

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

As sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner with control of the operating partnership, CyrusOne Inc. consolidates the operating partnership for financial reporting purposes, and it

does not have significant assets other than its investment in the operating partnership. Therefore, the assets and liabilities of CyrusOne Inc. and CyrusOne LP are the same on their respective condensed consolidated financial statements. The separate discussions of CyrusOne Inc. and CyrusOne LP in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

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

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

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## PART I—FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CyrusOne Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and amounts in millions, except for shares and per share amounts)

	As of September 30, 2015	As of December 31, 2014
Assets		
Investment in real estate:		
Land	\$93.0	\$89.7
Buildings and improvements	897.7	812.6
Equipment	555.6	349.1
Construction in progress	187.1	127.0
Subtotal	1,733.4	1,378.4
Accumulated depreciation	(404.4	) (327.0
Net investment in real estate	1,329.0	1,051.4
Cash and cash equivalents	39.8	36.5
Rent and other receivables, net of allowance for doubtful accounts of \$0.7 and \$1.0 as of September 30, 2015 and December 31, 2014, respectively	74.5	60.9
Restricted cash	7.1	—
Goodwill	453.4	276.2
Intangible assets, net of accumulated amortization of \$83.1 and \$72.1 as of September 30, 2015 and December 31, 2014, respectively	175.7	68.9
Due from affiliates	1.3	0.8
Other assets	100.8	91.8
Total assets	\$2,181.6	\$1,586.5
Liabilities and equity		
Accounts payable and accrued expenses	\$116.3	\$69.9
Deferred revenue	74.1	65.7
Due to affiliates	2.7	7.3
Capital lease obligations	12.8	13.4
Long-term debt	982.7	659.8
Other financing arrangements	151.9	53.4
Total liabilities	1,340.5	869.5
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 66,245,906 and 38,651,517 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	0.6	0.4
Additional paid in capital	912.3	516.5
Accumulated deficit	(124.3	) (55.9
Accumulated other comprehensive loss	(0.7	) (0.3
Total shareholders' equity	787.9	460.7
Noncontrolling interest	53.2	256.3
Total equity	841.1	717.0



Total liabilities and equity	\$2,181.6	\$1,586.5
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The accompanying notes are an integral part of the condensed consolidated financial statements.

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CyrusOne Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and amounts in millions, except per share data)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenue	\$111.2	\$84.8	\$286.0	\$244.0
Costs and expenses:				
Property operating expenses	42.2	33.0	107.3	92.5
Sales and marketing	3.2	3.2	8.9	9.7
General and administrative	12.5	9.0	31.5	24.7
Depreciation and amortization	39.1	30.0	101.6	87.4
Transaction and acquisition integration costs	1.8	—	11.5	0.9
Asset impairments and loss on disposal	4.9	—	13.5	—
Total costs and expenses	103.7	75.2	274.3	215.2
Operating income	7.5	9.6	11.7	28.8
Interest expense	12.1	9.0	29.2	30.4
Net income (loss) before income taxes	(4.6	) 0.6	(17.5	) (1.6
Income tax expense	(0.7	) (0.4	) (1.5	) (1.1
Net income (loss)	(5.3	) 0.2	(19.0	) (2.7
Noncontrolling interest in net income (loss)	(0.7	) 0.1	(4.6	) (1.9
Net income (loss) attributed to common shareholders	\$(4.6	) \$0.1	\$(14.4	) \$(0.8
Basic weighted average common shares outstanding	64.3	36.9	50.6	26.5
Diluted weighted average common shares outstanding	64.3	36.9	50.6	26.5
Loss per share - basic and diluted	\$(0.08	) —	(0.30	) (0.06
Dividends declared per share	\$0.315	\$0.210	\$0.945	\$0.630

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

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CyrusOne Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited and amounts in millions)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net income (loss)	\$ (5.3 )	\$ 0.2	\$ (19.0 )	\$ (2.7 )
Other comprehensive income (loss):				
Foreign currency translation adjustments	(0.4 )	—	(0.4 )	—
Comprehensive income (loss)	(5.7 )	0.2	(19.4 )	(2.7 )
Comprehensive income (loss) attributable to noncontrolling interests	(0.7 )	0.1	(4.6 )	(1.9 )
Comprehensive income (loss) attributable to CyrusOne Inc.	\$ (5.0 )	\$ 0.1	\$ (14.8 )	\$ (0.8 )

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

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CyrusOne Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(unaudited and amounts in millions)

	Common Stock Issued Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders Equity/ Parent's Net Investment	Non- controlling Interest	Total Equity
Balance January 1, 2014	22.0	\$ 0.2	\$ 340.7	\$ (18.9 )	\$ —	\$ 322.0	\$ 455.6	\$ 777.6
Net loss	—	—	—	(2.7 )	—	(2.7 )	—	(2.7 )
Noncontrolling interest allocated net loss	—	—	—	1.9	—	1.9	(1.9 )	—
Stock issuance costs	—	—	(1.3 )	—	—	(1.3 )	—	(1.3 )
Stock based compensation	0.7	—	7.6	—	—	7.6	—	7.6
Issuance of common stock	16.0	0.2	355.7	—	—	355.9	—	355.9
Redemption of noncontrolling interest	—	—	(189.0 )	—	—	(189.0 )	(166.9 )	(355.9 )
Dividends and distributions, \$0.63 per share	—	—	—	(21.1 )	—	(21.1 )	(20.1 )	(41.2 )
Balance at September 30, 2014	38.7	\$ 0.4	\$ 513.7	\$ (40.8 )	\$ —	\$ 473.3	\$ 266.7	\$ 740.0
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
Common stock repurchases	—	—	(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

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

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CyrusOne Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and amounts in millions)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows from operating activities:		
Net loss	\$(19.0	) \$(2.7
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	101.6	87.4
Non-cash interest expense	2.3	2.7
Stock-based compensation expense	10.5	7.6
Provision for bad debt write off	0.3	0.9
Asset impairments and loss on disposal	13.5	—
Change in operating assets and liabilities:		
Rent receivables and other assets	(16.9	) (31.3
Accounts payable and accrued expenses	9.9	14.1
Deferred revenues	0.8	10.2
Due to affiliates	(1.5	) (0.6
Net cash provided by operating activities	101.5	88.3
Cash flows from investing activities:		
Capital expenditures – acquisitions of real estate	(17.3	) —
Capital expenditures – other development	(140.9	) (194.9
Business acquisition, net of cash acquired	(398.4	) —
Net cash used in investing activities	(556.6	) (194.9
Cash flows from financing activities:		
Issuance of common stock	799.3	355.9
Stock issuance costs	(0.8	) (1.3
Acquisition of operating partnership units	(596.4	) (355.9
Dividends paid	(58.3	) (37.4
Borrowings from credit facility	220.0	30.0
Proceeds from issuance of debt	103.8	—
Payments on capital leases and other financing arrangements	(3.8	) (3.1
Debt issuance costs	(5.4	) —
Net cash provided by (used in) financing activities	458.4	(11.8
Net increase (decrease) in cash and cash equivalents	3.3	(118.4
Cash and cash equivalents at beginning of period	36.5	148.8
Cash and cash equivalents at end of period	\$39.8	\$30.4
Supplemental disclosures of cash flow information		
Cash paid for interest	\$21.4	\$22.4
Cash paid for income taxes	2.5	0.4
Supplemental disclosures of non-cash investing and financing activities		
Capitalized interest	\$4.2	\$3.0
Acquisition of property in accounts payable and other liabilities	37.9	50.1
Dividends declared	23.5	14.1
Debt issuance costs	0.3	—

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



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

	As of September 30, 2015	As of December 31, 2014
Assets		
Investment in real estate:		
Land	\$93.0	\$89.7
Buildings and improvements	897.7	812.6
Equipment	555.6	349.1
Construction in progress	187.1	127.0
Subtotal	1,733.4	1,378.4
Accumulated depreciation	(404.4	) (327.0
Net investment in real estate	1,329.0	1,051.4
Cash and cash equivalents	38.1	36.5
Rent and other receivables, net of allowance for doubtful accounts of \$0.7 and \$1.0 as of September 30, 2015 and December 31, 2014, respectively	74.5	60.9
Restricted cash	7.1	—
Goodwill	453.4	276.2
Intangible assets, net of accumulated amortization of \$83.1 and \$72.1 as of September 30, 2015 and December 31, 2014, respectively	175.7	68.9
Due from affiliates and parent	3.0	0.8
Other assets	100.8	91.8
Total assets	\$2,181.6	\$1,586.5
Liabilities and parent's net investment		
Accounts payable and accrued expenses	\$116.3	\$69.9
Deferred revenue	74.1	65.7
Due to affiliates	2.7	7.3
Capital lease obligations	12.8	13.4
Long-term debt	982.7	659.8
Other financing arrangements	151.9	53.4
Total liabilities	1,340.5	869.5
Commitments and contingencies		
Parent's net investment:		
Partnership capital	841.1	717.0
Total liabilities and partnership capital	\$2,181.6	\$1,586.5
The accompanying notes are an integral part of the condensed consolidated financial statements.		

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CyrusOne LP

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and amounts in millions)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenue	\$111.2	\$84.8	\$286.0	\$244.0
Costs and expenses:				
Property operating expenses	42.2	33.0	107.3	92.5
Sales and marketing	3.2	3.2	8.9	9.7
General and administrative	12.5	9.0	31.5	24.7
Depreciation and amortization	39.1	30.0	101.6	87.4
Transaction and acquisition integration costs	1.8	—	11.5	0.9
Asset impairments and loss on disposal	4.9	—	13.5	—
Total costs and expenses	103.7	75.2	274.3	215.2
Operating income	7.5	9.6	11.7	28.8
Interest expense	12.1	9.0	29.2	30.4
Net (loss) income before income taxes	(4.6	) 0.6	(17.5	) (1.6
Income tax expense	(0.7	) (0.4	) (1.5	) (1.1
Net (loss) income	\$(5.3	) \$0.2	\$(19.0	) \$(2.7

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



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CyrusOne LP

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited and amounts in millions)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Net (loss) income	\$(5.3 )	\$0.2	\$(19.0 )	\$(2.7 )
Other comprehensive loss:				
Foreign currency translation adjustments	(0.4 )	—	(0.4 )	—
Comprehensive income (loss) attributable to CyrusOne LP	\$(5.7 )	\$0.2	\$(19.4 )	\$(2.7 )

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

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## CyrusOne LP

## CONDENSED CONSOLIDATED STATEMENTS OF PARTNERSHIP CAPITAL

(unaudited and amounts in millions)

	Partnership Units	Partnership Capital
Balance January 1, 2014	64.6	\$777.6
Net loss	—	(2.7 )
Compensation expense of CyrusOne Inc. allocated to operating partnership	—	7.6
Distributions to CyrusOne Inc.	—	(1.3 )
Net partnership units issued to CyrusOne Inc.	0.7	—
Partnership units purchased by CyrusOne Inc.	16.0	355.9
Partnership units sold by CBI	(16.0 )	(355.9 )
Partnership distributions	—	(41.2 )
Balance at September 30, 2014	65.3	\$740.0
Balance January 1, 2015	65.3	\$717.0
Net loss	—	(19.0 )
Compensation expense of CyrusOne Inc. allocated to operating partnership	—	10.5
Distributions to CyrusOne, Inc.	—	(0.8 )
Net partnership units issued to CyrusOne Inc.	0.3	—
Partnership units purchased by CyrusOne Inc.	27.3	798.5
Partnership units sold by CBI	(20.3 )	(596.4 )
Partnership distributions	—	(68.3 )
Foreign currency translation adjustments	—	(0.4 )
Balance at September 30, 2015	72.6	\$841.1

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

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CyrusOne LP

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and amounts in millions)

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Cash flows from operating activities:		
Net loss	\$(19.0	) \$(2.7
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	101.6	87.4
Non-cash interest expense	2.3	2.7
Stock-based compensation expense	10.5	7.6
Provision for bad debt write off	0.3	0.9
Asset impairments and loss on disposal	13.5	—
Change in operating assets and liabilities:		
Rent receivables and other assets	(16.9	) (31.3
Accounts payable and accrued expenses	9.9	14.1
Deferred revenues	0.8	10.2
Due to affiliates and parent	(3.2	) (0.6
Net cash provided by operating activities	99.8	88.3
Cash flows from investing activities:		
Capital expenditures – acquisitions of real estate	(17.3	) —
Capital expenditures – other development	(140.9	) (194.9
Business acquisition, net of cash acquired	(398.4	) —
Net cash used in investing activities	(556.6	) (194.9
Cash flows from financing activities:		
Issuance of partnership units	202.9	—
Distributions to CyrusOne Inc.	(0.8	) (1.3
Distributions paid	(58.3	) (37.4
Borrowings from credit facility	220.0	30.0
Proceeds from issuance of debt	103.8	—
Payments on capital leases and other financing arrangements	(3.8	) (3.1
Debt issuance costs	(5.4	) —
Net cash provided by (used in) financing activities	458.4	(11.8
Net increase (decrease) in cash and cash equivalents	1.6	(118.4
Cash and cash equivalents at beginning of period	36.5	148.8
Cash and cash equivalents at end of period	\$38.1	\$30.4
Supplemental disclosures of cash flow information		
Cash paid for interest	\$21.4	\$22.4
Cash paid for income taxes	2.5	0.4
Supplemental disclosures of non-cash investing and financing activities		
Capitalized interest	\$4.2	\$3.0
Acquisition of property in accounts payable and other liabilities	37.9	50.1
Distribution declared	23.5	14.1
Debt issuance costs	0.3	—

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



CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED 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. holds a controlling interest in CyrusOne LP (the “operating partnership”) and the subsidiaries of the operating partnership (collectively, “CyrusOne”, “we”, “us”, “our”, and the “Company”) is an owner, operator and developer of enterprise-class, carrier-neutral, multi-tenant data center properties. Our customers operate in a number of industries, including energy, oil and gas, mining, medical, technology, finance and consumer goods and services. We currently operate 31 data centers and 2 recovery centers located in the United States, United Kingdom and Singapore.

2. Formation

Prior to November 20, 2012, CyrusOne was not an operative legal entity or a combination of legal entities.

On November 20, 2012, the operating partnership received a contribution of interests in real estate properties and the assumption of debt and other specified liabilities from CBI (“Predecessor”) in exchange for the issuance of 123.7 million operating partnership units to CBI.

On January 24, 2013, CyrusOne Inc. completed its initial public offering (“IPO”) of common stock, issuing approximately 19.0 million shares for \$337.1 million, net of underwriting discounts. At that time the operating partnership executed a 2.8 to 1.0 reverse unit split, resulting in CBI owning 44.1 million operating partnership units. In addition, CBI exchanged approximately 1.5 million of its operating partnership units for 1.5 million shares of CyrusOne Inc. common stock, and CBI was issued 0.4 million shares of CyrusOne Inc. common stock in repayment for transaction costs paid by CBI. CyrusOne Inc. also issued approximately 1.1 million shares of restricted stock to its directors and employees. In addition, on January 24, 2013, CyrusOne Inc., together with CyrusOne GP, purchased approximately 21.9 million, or 33.9%, of the operating partnership’s units for \$337.1 million and through CyrusOne GP assumed the controlling interest in the operating partnership. CBI retained a noncontrolling interest in the operating partnership of 66.1%.

On June 25, 2014, CyrusOne Inc. completed a public offering of approximately 16.0 million shares of its common stock, including 2.1 million shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares, at a price to the public of \$23.25 per share, or \$371.7 million. CyrusOne Inc. used the proceeds of \$355.9 million, net of underwriting discounts of \$15.8 million, to acquire 16.0 million common units of limited partnership interests in the operating partnership from a subsidiary of CBI.

On April 7, 2015, CyrusOne Inc. completed a public offering of approximately 14.3 million shares of its common stock, including approximately 1.9 million shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares, at a price to the public of \$31.12 per share, or \$443.8 million. CyrusOne Inc. used the proceeds of \$426.0 million, net of underwriting costs of \$17.8 million, to acquire approximately 14.3 million common units of limited partnership interests in the operating partnership from two subsidiaries of CBI.

On June 26, 2015, CyrusOne Inc. completed a public offering of approximately 13.0 million shares of its common stock, including 1.7 million shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares, at a price to the public of \$30.00 per share, or \$389.9 million. CyrusOne Inc. used \$203 million of the total proceeds of \$373.3 million, net of underwriting costs of \$16.6 million, to finance CyrusOne LP's acquisition of Cervalis Holdings LLC (“Cervalis”), to pay fees and expenses related to the Cervalis acquisition and for general corporate purposes. The balance of the purchase price was funded with proceeds from CyrusOne LP and CyrusOne Finance Corp.'s offering of 6.375% senior notes due 2022 in July 2015 and borrowings under its amended credit facility. See Note 7 below. In addition, CyrusOne used the remaining \$170.3 million of the net proceeds from the offering to acquire approximately 6.0 million common units of limited partnership interests in the operating partnership from a subsidiary of CBI. The purchase of the partnership interests was completed on July 1, 2015. See Note 9 below.

On July 1, 2015, CyrusOne LP acquired four data center facilities and two work area recovery facilities serving the New York metropolitan area through the acquisition of Cervalis for approximately \$400 million, excluding transaction

related expenses.

As of September 30, 2015, the total number of outstanding shares of common stock and operating partnership units was 72.6 million. As of September 30, 2015, CBI owned approximately 11.3% of CyrusOne through its 2.6% interest in the outstanding shares of common stock of CyrusOne Inc. and its 8.7% noncontrolling interest in the common units of the limited partnership interest of CyrusOne LP that may be exchanged by CBI for common stock.

CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

### 3. Basis of Presentation

The accompanying financial statements as of September 30, 2015 and December 31, 2014, and for the three and nine months ended September 30, 2015 and September 30, 2014, 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, 2014, which was filed with the Securities and Exchange Commission (“SEC”) on February 27, 2015. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been omitted from this report on Form 10-Q pursuant to the rules and regulations of the SEC.

It should also be noted that the results for the interim periods shown in this report are not necessarily indicative of future

financial results and have not been audited by our independent registered public accounting firm. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments necessary to present fairly our financial position as of September 30, 2015, and our results of operations for the three and nine months ended September 30, 2015 and 2014. 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, 2014.

### 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 condensed 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. Estimates were also utilized in the determination of historical allocations of shared employees’ payroll, benefits and incentives and management fees. Actual results may differ from these estimates and assumptions.

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

When we are involved in the construction of structural improvements to leased property, we are deemed the accounting owner of the leased real estate. In these instances, we bear substantially all the construction period risk, including managing or funding construction. 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 condensed 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 other financing arrangements in the accompanying condensed 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.



CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

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

Management reviews the carrying value of long-lived assets, including intangible assets with finite lives, when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Examples of such indicators may include a significant adverse change in the extent to which or manner in which the property is being used, an accumulation of costs significantly in excess of the amount originally expected for acquisition or development, or a history of operating or cash flow losses. When such indicators exist, we review an estimate of the undiscounted future cash flows expected to result from the use of an asset (or group of assets) and its eventual disposition and compare such amount to its carrying amount. We consider factors such as future operating income, leasing demand, competition and other factors. If our undiscounted net cash flows indicate that we are unable to recover the carrying value of the asset, an impairment loss is recognized. An impairment loss is measured as the amount by which the asset's carrying value exceeds its estimated fair value.

Impairment exists when the Company's net book value of real estate assets is greater than the estimated fair value. 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, 2014.

**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.

**Goodwill**—Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with business acquisitions. We perform impairment testing of goodwill, at the reporting unit level, on an annual basis or more frequently if indicators of potential impairment exist. The fair value of our reporting unit was determined using a combination of market-based valuation multiples for comparable businesses and discounted cash flow analysis based on internal financial forecasts incorporating market participant assumptions. There were no impairments recognized for any of the periods presented.

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

**Rent and Other Receivables**—Receivables consist principally of trade receivables from customers and are generally unsecured and due within 30 to 120 days. Unbilled receivables arise from services rendered but not yet billed.

**Expected credit**

losses associated with trade receivables are recorded as an allowance for uncollectible accounts. The allowance for uncollectible accounts is estimated based upon historic patterns of credit losses for aged receivables as well as specific provisions for certain identifiable, potentially uncollectible balances. When internal collection efforts on accounts have been

exhausted, the accounts are written-off and the associated allowance for uncollectible accounts is reduced. The Company has receivables with one customer that exceeds 10% of the Company's outstanding accounts receivable balance at September 30, 2015 and December 31, 2014. In addition, our receivables include \$7.2 million of receivables as of September 30, 2015 which has not been billed to the customer. The amount is billed and payable in 36 monthly payments which started in April 2015 through March 2018. As of September 30, 2015, receivables were \$75.2 million, and the allowance for uncollectible accounts was \$0.7 million. The December 31, 2014 receivables were \$61.9 million, and the allowance for uncollectible accounts was \$1.0 million.

Deferred Costs—Deferred costs include both deferred leasing costs and deferred financing costs. Deferred costs are presented with other assets in the accompanying condensed consolidated 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

CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

leasing costs is presented with depreciation and amortization in the accompanying condensed consolidated statements of operations. If a lease terminates prior to the expected term of the lease, the remaining unamortized cost is written off to amortization expense.

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

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 condensed 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 condensed 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.

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

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

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

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

Transaction 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 shareholders. If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to federal income tax at regular corporate rates and any applicable alternative minimum tax.

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

CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

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

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction as well as various foreign, state and local jurisdictions. The Company's previous tax filings are subject to normal reviews by regulatory agencies until the related statute of limitations expires. With a few exceptions, the Company is no longer subject to U. S. federal, state or local examinations for years prior to 2010, and we have no liabilities for uncertain tax positions as of September 30, 2015.

**Comprehensive Loss**—Comprehensive loss represents the change in net assets of a company from transactions and other events from non-owner sources. Comprehensive income loss comprises all components of net income and all components of other comprehensive income.

**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 and convertible subordinated notes outstanding during the period, when such instruments are dilutive.

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

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

**Restricted Shares** - On January 24, 2013, CyrusOne Inc. issued approximately 1 million restricted shares to its employees, officers and members of the Company's board of directors in conjunction with CyrusOne's IPO. These restricted shares generally vest over three years. The per share grant date price was \$19.00. In addition, from time to time, new employees and board of directors have been issued restricted shares. These restricted shares are issued at a price equal to share price on the grant date.

**Performance and Market Based Awards** - On April 17, 2013, and February 7, 2014, the Company issued performance and market based awards in the form of options and/or restricted stock to certain employees and officers of the Company. Fifty percent of the restricted shares and stock options will vest annually based upon achieving certain performance criteria. The other fifty percent of the restricted shares and stock options will vest at the end of three years if certain market conditions are met. The fair value of these awards was determined using the Black-Scholes or Monte-Carlo model which use assumptions such as volatility, risk-free interest rate, and expected term of the awards.

**Time-Based, Performance and Market Based Awards** - On February 10, 2015, the Company issued awards in the form of options and/or restricted stock to certain employees and officers of the Company. The stock options are time-based and vest annually on a pro-rata basis over three years. Twenty-five percent of the restricted stock is subject to time-based vesting and seventy-five percent of the restricted stock is subject to performance-based vesting. The time-based restricted stock will vest pro-rata annually over three years. The performance-based restricted stock will vest annually based upon the achievement of certain criteria for each year of the three-year measurement period. The first two years are capped at 100% of the target with a cumulative true-up in year three. The fair value of these awards was determined using the Black-Scholes or Monte-Carlo model which use assumptions such as volatility, risk-free interest rate, and expected term of the awards.

- Compensation expense for these awards is recognized over the vesting periods. See Note 11 for additional details relating to these awards.

- The board grants equity-based awards from time to time to new members of the management team.

**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.

CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

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

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

In August 2014, the FASB issued guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements. This guidance is effective for annual periods ending after December 15, 2016, and interim periods thereafter; early adoption is permitted. We are currently evaluating the full impact of the new standard. In January 2015, the FASB issued guidance eliminating from U.S. GAAP the concept of an extraordinary item. An entity is no longer required to (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; and (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. This guidance does not affect the reporting and disclosure requirements for an event that is unusual in nature or that occurs infrequently. In February 2015, the FASB issued guidance which amended the consolidation requirements in ASC 810 and significantly changed the consolidation analysis required under U.S. GAAP. The amendments include (1) limited partnerships will be variable interest entities; (2) changes the effect that fees paid to a decision maker or service provider have on the consolidation analysis; (3) amends how variable interests held by a reporting entity's related parties or de facto agents affect its consolidation conclusion; (4) clarifies how to determine whether the equity holders have power over the entity, and (5) the deferral of ASU 2009-17 for investments in certain investment funds has been eliminated. This guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. We are currently evaluating the full impact of the new standard.

In April 2015, the FASB issued guidance to simplify the presentation of debt issuance costs. The amendments would require that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs would not be affected by this guidance. This guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We are currently evaluating the full impact of the new standard.

In August 2015, the FASB issued ASU 2015-15 to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements given the lack of guidance on this topic in ASU 2015-03. The SEC staff has announced that it would not object to an entity deferring issuance costs ratably over the term of the line-of-credit arrangement.

In September 2015, the FASB issued ASU 2015-16 to simplify the accounting for measurement-period adjustments. Under the ASU, an acquirer must recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The ASU also requires acquirers to present separately on the face of the income statement, or disclose in the notes, the portion of the amount recorded in the current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been



## CyrusOne Inc. and CyrusOne LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

recognized as of the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. We are currently evaluating the full impact of the new standard.

## 5. Acquisitions

On July 1, 2015, CyrusOne LP acquired 100% of Cervalis, a privately-held owner and operator of data centers for approximately \$400 million, excluding transaction-related expenses, in an all cash transaction. Cervalis has four data center facilities and two work recovery facilities serving the New York metropolitan area. CyrusOne LP financed the acquisition with proceeds of CyrusOne Inc's June 2015 common stock offering and CyrusOne LP and CyrusOne Finance Corp.'s July 2015 senior notes offering as well as drawing under CyrusOne Inc's senior unsecured credit facility. The acquisition of Cervalis enhances the geographic diversification of CyrusOne, provides access to a high quality enterprise customer base and strengthens our product portfolio. The goodwill recorded for this acquisition relates to the incremental value that Cervalis brings to the existing CyrusOne operations. The customer relationships intangible is expected to be amortized over fifteen years. For the three and nine months ended September 30, 2015, transaction and integration costs related to the Cervalis acquisition were \$1.8 million and \$11.5 million, respectively.

The Consolidated Financial Statements include the operating results of Cervalis from the date of acquisition. The following table summarizes the estimated fair values of all assets acquired and liabilities assumed at the date of acquisition:

Cash	\$1.1	
Rent and other receivables	9.6	
Restricted cash	7.1	
Net investment in real estate	198.4	
Goodwill	177.2	
Customer relationships	117.4	
Trade name	2.3	
Other long-term assets	6.7	
Total assets acquired	519.8	
Current liabilities	17.2	
Capital lease obligations	1.7	
Other financing arrangements	101.4	
Total liabilities	120.3	
Net assets acquired attributable to CyrusOne Inc.	399.5	
Cash acquired	(1.1	)
Net cash paid at acquisition	398.4	

The Cervalis acquisition was consummated in the third quarter of 2015, and therefore, the amounts recorded for the acquisition of Cervalis are provisional as CyrusOne is in the process of finalizing the amounts recorded for assets and liabilities. The acquisition of Cervalis in July 2015 resulted in an increase in revenue of \$18.3 million for the three and the nine months ended September 30, 2015.

The unaudited pro forma combined historical results of CyrusOne, as if Cervalis had been acquired and the financing transactions had been consummated as of January 1, 2014 are:

	Nine months ended September 30,	
	2015	2014
Revenue	325.3	295.2
Net loss	(20.4	) (6.3
Loss per share - basic and diluted	(0.40	) (0.24

These amounts have been calculated after applying CyrusOne's policies and adjusting the results to reflect changes to depreciation and amortization to property and equipment, amongst others, and amortizing intangible assets had been recorded as of January 1, 2014. These pro forma combined results of operation is presented for informative purposes only and they do

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CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

not purport to be indicative of the results of operation that actually would have resulted had the acquisition occurred on the date indicated, or that may result in the future.

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CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

6. Investment in Real Estate

A schedule of our gross investment in real estate follows:

(amounts in millions)	September 30, 2015			December 31, 2014		
	Land	Building and Improvements	Equipment	Land	Building and Improvements	Equipment
West Seventh St., Cincinnati, OH (7th Street)	\$0.9	\$110.6	\$19.1	\$0.9	\$110.6	\$12.7
Parkway Dr., Mason, OH (Mason)	—	20.2	0.9	—	20.2	0.9
Industrial Rd., Florence, KY (Florence)	2.2	41.5	3.2	2.2	41.4	3.0
Goldcoast Dr., Cincinnati, OH (Goldcoast)	0.6	6.7	0.1	0.6	6.7	0.1
Knightsbridge Dr., Hamilton, OH (Hamilton)	—	49.2	4.4	—	49.2	3.7
E. Monroe St., South Bend, IN (Monroe St.)	—	2.5	0.1	—	2.5	0.1
Springer St., Lombard, IL (Lombard)	0.7	4.7	7.4	0.7	4.7	5.7
Crescent Circle, South Bend, IN (Blackthorn)	—	3.3	0.1	—	3.3	0.1
Kingsview Dr., Lebanon, OH (Lebanon)	4.0	77.3	6.1	4.0	77.0	5.5
McAuley Place, Blue Ash, OH (Blue Ash)	—	0.6	0.1	—	0.6	0.1
Westway Park Blvd., Houston, TX (Houston West 1)	1.4	84.8	45.2	1.4	84.4	43.8
Westway Park Blvd., Houston, TX (Houston West 2)	2.0	22.6	46.8	2.0	22.5	45.1
Westway Park Blvd., Houston, TX (Houston West 3)	18.4	3.9	0.9	18.4	—	—
Southwest Fwy., Houston, TX (Galleria)	—	68.6	15.6	—	68.6	15.0
E. Ben White Blvd., Austin, TX (Austin 1)	—	13.6	1.2	—	22.5	1.2
S. State Highway 121 Business, Lewisville, TX (Lewisville)	—	76.6	23.4	—	76.7	22.8
Marsh Lane, Carrollton, TX (Marsh Ln)	—	0.1	0.6	—	0.1	0.5
Midway Rd., Carrollton, TX (Midway)	—	2.0	0.4	—	2.0	0.4
W. Frankford Rd., Carrollton, TX (Carrollton)	16.1	52.5	110.9	16.1	51.6	85.3
Bryan St., Dallas, TX (Bryan St)	—	0.1	0.2	—	0.1	0.2
North Freeway, Houston, TX (Greenspoint)	—	—	—	—	1.3	—
South Ellis Street, Chandler, AZ (Phoenix 1)	14.8	56.7	39.6	14.8	56.4	43.9
South Ellis Street, Chandler, AZ (Phoenix 2)	—	16.8	39.7	—	13.2	21.8
Westover Hills Blvd., San Antonio, TX (San Antonio 1)	4.6	32.1	32.7	4.6	32.1	32.4
Westover Hills Blvd., San Antonio, TX (San Antonio 2)	7.0	—	—	7.0	—	—
Metropolis Dr., Austin, TX (Austin 2)	2.0	23.2	5.0	2.0	23.2	4.0
Myer Connors Rd (Wappinger Falls)	—	9.9	13.4	—	—	—
Madison Road (Totowa)	—	28.3	48.9	—	—	—
Commerce Road (Totowa)	—	4.1	0.8	—	—	—
Norden Place (Norwalk)	—	18.3	25.3	—	—	—
Riverbend Drive South (Stamford)	—	4.3	13.2	—	—	—
Omega Drive (Stamford)	—	3.2	1.5	—	—	—
Kestral Way (London)	—	32.0	0.8	—	32.7	0.7

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Jurong East (Singapore)	—	8.3	0.1	—	9.0	0.1
Ridgetop Circle, Sterling, VA (Northern Virginia)	7.0	19.1	47.9	7.0	—	—
Metropolis Dr., Austin, TX (Austin 3)	8.0	—	—	8.0	—	—
Metropolis Dr. Austin, TX (Austin 4)	3.3	—	—	—	—	—
Total	\$93.0	\$897.7	\$555.6	\$89.7	\$812.6	\$349.1

Construction in progress was \$187.1 million and \$127.0 million as of September 30, 2015 and December 31, 2014, respectively. We continue to have high amounts of construction in progress as we continue to build data center facilities.

## CyrusOne Inc. and CyrusOne LP

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During 2015, we are continuing to invest in the development of real estate property. Our capital expenditures have included the development of additional square footage and power in our Phoenix 2, Houston West 3, Carrollton and Northern Virginia data centers, and the purchase of Austin 4 in February of 2015. The total purchase price of the Austin 4 facility was \$17.3 million, of which \$3.3 million was allocated to land and the remaining amount remains in construction in process as of September 30, 2015.

Impairment is recorded when the Company's net book value of real estate assets is greater than the estimated fair value. For the period ended September 30, 2015, we recognized an impairment of \$9.2 million related to the exit of Austin 1, which is a leased facility. The effective date of our lease termination is March 31, 2016.

#### 7. Debt and Other Financing Arrangements

Debt and other financing arrangements presented in the accompanying consolidated financial statements consist of the following:

(amounts in millions)	September 30, 2015	December 31, 2014
Revolving credit facility	\$205.0	\$135.0
Term loan	300.0	150.0
6.375% senior notes due 2022, including bond premium	477.7	374.8
Long-term debt	982.7	659.8
Capital lease obligations	12.8	13.4
Other financing arrangements	151.9	53.4
Total	\$1,147.4	\$726.6

Credit Facility— On October 9, 2014, CyrusOne LP entered into a new Credit Agreement which originally provided for a \$450 million senior unsecured revolving credit facility to replace CyrusOne LP's former \$225 million secured credit facility, and a \$150 million senior unsecured term loan.

On June 22, 2015, CyrusOne entered into an amendment to the Credit Agreement and other loan documents governing its revolving credit facility and term loan facility. The amendment increased the size of the Credit Agreement's accordion feature, which gave the operating partnership the ability to request an increase in the total commitment under the Credit Agreement, from \$300 million to \$600 million. Immediately after entering into the amendment, the operating partnership exercised \$350 million of this accordion feature and obtained commitments to increase the total commitment under the Credit Agreement from \$600 million to \$950 million, comprised of \$650 million of commitments under the revolving credit facility and \$300 million under the term loan.

On July 1, 2015, CyrusOne borrowed an additional \$150 million under the term loan facility which was used to partially finance the acquisition of Cervalis. As of September 30, 2015, the Company had borrowings of \$205 million under the \$650 million revolving credit facility and \$300 million under the \$300 million term loan facility. In addition, the Credit Agreement contains an accordion feature that allows CyrusOne LP to increase the aggregate commitment by up to \$250 million.

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 term loan is scheduled to mature in October 2019. The revolving credit facility currently bears interest at a rate per annum equal to LIBOR plus 1.70% and the term loan currently bears 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 term loan 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 \$0.3 million and \$0.3 million for the three months ended September 30, 2015 and 2014, respectively. Commitment fees related to the Credit Agreement were \$0.6 million and \$0.9 million for the nine months ended September 30, 2015 and 2014, respectively.

6.375% Senior Notes due 2022—On November 20, 2012, CyrusOne LP and CyrusOne Finance Corp. (the "Issuers") issued \$525 million of 6.375% senior notes due 2022 (the "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

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## CyrusOne Inc. and CyrusOne LP

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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 100% 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 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 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 million aggregate principal amount of the 6.375% senior notes (the "New Notes"). 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. The Issuers and guarantors of the New Notes entered into a registration rights agreement which requires them, at their cost, to use commercially reasonable efforts to file and cause to become effective a registration statement within 180 days of July 1, 2015, to be used in connection with the exchange of the New Notes for freely tradable notes with substantially identical terms in all material respects to the New Notes (which exchange must be completed on or prior to the 30th day after such registration statement is declared effective). The Company used the net proceeds from the offering of the New Notes to finance, in part, the operating partnership's acquisition of Cervalis, and to pay fees and expenses related to the acquisition. As of September 30, 2015, the outstanding balance on the 6.375% senior notes was \$477.7 million, including bond premium.

**Capital lease obligations**—We use leasing as a source of financing for certain of our data center facilities and related equipment. We currently operate four data center facilities recognized as capital leases. We have options to extend the initial lease term on all these leases and options to purchase the facility for one of these leases. Interest expense on capital lease obligations was \$2.5 million and \$1.6 million for the three months ended September 30, 2015 and 2014, respectively. Interest expense on capital lease obligations was \$5.2 million and \$4.6 million for the nine months ended September 30, 2015 and 2014, respectively.

**Other financing arrangements**—Other 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.

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 and term loan and 6.375% senior notes due 2022. As of September 30, 2015 and 2014, deferred financing costs totaled \$18.6 million and \$11.5 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 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 \$0.9 million for the three months ended September 30, 2015 and 2014,

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respectively. Amortization of deferred financing costs totaled \$2.4 million and \$2.7 million for the nine months ended September 30, 2015 and 2014, respectively.

Debt Covenants —The Credit Agreement governing the revolving credit facility and the term loan 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 shareholders 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 its 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 shareholders 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, 2015, we believe we were in compliance with all covenants.

#### 8. 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. 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, accounts receivable, 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:

(amounts in millions)	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
6.375% senior notes due 2022, including bond premium	\$477.7	\$487.3	\$374.8	\$402.0
Revolving credit facility and term loan	505.0	505.0	285.0	285.0
Other financing arrangements	151.9	156.5	53.4	63.1

The fair value of our senior notes as of September 30, 2015 and December 31, 2014 was based on the quoted market price for these notes, which is considered Level 1 of the fair value hierarchy. The fair value of the revolving credit facility and term loan was based on par value as of September 30, 2015. The fair value of other financing arrangements at September 30, 2015 and December 31, 2014, 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 2 of the fair value hierarchy.

#### 9. Noncontrolling Interest - Operating Partnership

The noncontrolling interest represents the limited partnership interest in the operating partnership held by CBI.

The following table shows the ownership interests as of September 30, 2015 and 2014, and the portion of net loss and distributions for the nine months ended September 30, 2015 and 2014:

(amounts in millions, except per unit amount)	September 30, 2015		September 30, 2014	
	The Company	CBI	The Company	CBI
Operating partnership units	66.3	6.3	38.7	26.6
Ownership %	91.3	% 8.7	% 59.2	% 40.8
Portion of net (loss) income	(14.4 )	(4.6 )	(0.8 )	(1.9 )
Distributions	(54.0 )	(14.3 )	(21.1 )	(20.1 )

CyrusOne LP issued 123.7 million operating partnership units to CBI on November 20, 2012 and CBI assumed certain of the Predecessor's intercompany payables and other liabilities of \$203.5 million. 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 approximately 1.5 million operating partnership units for common shares of CyrusOne Inc.

As stock is issued by CyrusOne Inc., CBI's ownership percentage will change. CyrusOne Inc. has issued shares in conjunction with the LTIP discussed in Note 11. Furthermore, on June 25, 2014, CyrusOne Inc. completed a public offering of approximately 16.0 million shares of its common stock, including 2.1 million shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares, at a price to the public of \$23.25 per share, or \$371.7 million. CyrusOne Inc. used the proceeds of \$355.9 million, net of underwriting discounts of \$15.8 million, to acquire 16.0 million common units of limited partnership interests in the operating partnership from a subsidiary of CBI. As a result, the Company's noncontrolling interest decreased by \$166.9 million and CBI's ownership decreased to 40.8% as of September 30, 2014. In addition, the Company's additional paid in capital decreased by \$412.2 million and \$189 million as of September 30, 2015 and 2014, respectively. This represents the difference between the proceeds and the noncontrolling interest redeemed by CBI.

On April 7, 2015, CyrusOne Inc. completed a public offering of approximately 14.3 million shares of its common stock, including approximately 1.9 million shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares, at a price to the public of \$31.12 per share, or \$443.8 million. CyrusOne Inc. used the proceeds of \$426.0 million, net of underwriting costs of \$17.8 million, to acquire approximately 14.3 million common units of limited partnership interests in the operating partnership from two subsidiaries of CBI.

On June 26, 2015, CyrusOne Inc. completed a public offering of approximately 13.0 million shares of its common stock, including approximately 1.7 million shares of common stock issued upon the exercise in full by the underwriters of their option to purchase additional shares, at a price to the public of \$30.00 per share, or \$389.9 million. CyrusOne Inc. used \$203 million of the total proceeds of \$373.3 million, net of underwriting costs of \$16.6

million, to finance the acquisition of Cervalis, to pay fees and expenses related to the Cervalis acquisition and for general corporate purposes. In addition, on July 1, 2015, CyrusOne used the remaining \$170.3 million of the offering proceeds to acquire approximately 6.0 million common units of limited partnership interests in the operating partnership from a subsidiary of CBI at \$28.41 per unit.

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As of September 30, 2015, the total number of outstanding shares of common stock and operating partnership units was approximately 72.6 million. As of September 30, 2015, CBI owned approximately 11.3% of CyrusOne through its 2.6% interest in the outstanding shares of common stock of CyrusOne Inc. and its 8.7% noncontrolling interest in the common units of the limited partnership interest of CyrusOne LP that may be exchanged by CBI for common stock.

Under the Amended and Restated Agreement of Limited Partnership of the operating partnership (the "LP Agreement"), the limited partners of the operating partnership (including CBI) have certain redemption rights. The LP Agreement grants the limited partners the right to require the operating partnership to redeem part or all of their operating partnership units for cash based upon the fair market value of an equivalent number of shares of our common stock at the time of the redemption, determined in accordance with and subject to adjustment as provided in the LP Agreement. Alternatively, at our discretion, we may elect to acquire those operating partnership units in exchange for shares of our common stock. Our acquisition of partnership units in exchange for shares of our common stock would be on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, distributions of warrants or stock rights, specified extraordinary distributions and similar events. With each redemption or exchange, we increase our percentage ownership interest in our operating partnership.

The redemption value of the remaining noncontrolling interests was approximately \$207.3 million based on the closing price of our stock of \$32.66 on September 30, 2015.

#### 10. Dividends

On August 5, 2015, we announced a regular cash dividend of \$0.315 per common share payable to shareholders of record at the close of business on September 25, 2015. In addition, holders of operating partnership units received a distribution of \$0.315 per unit. The dividends and distributions were paid on October 15, 2015.

#### 11. Equity Incentive Plan

In conjunction with the IPO, our board of directors adopted the LTIP. The LTIP is administered by the board of directors, or the plan administrator. Awards issuable under the LTIP may include common stock, restricted stock, stock options and other incentive awards. We have reserved a total of 4 million shares of our common stock for issuance pursuant to the LTIP, which may be adjusted for changes in our 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. will be allocated to the operating partnership.

##### Time-Based Awards

The Company issued approximately 1 million time-based restricted shares to its employees, officers and directors in conjunction with the IPO. These restricted shares generally vest over three years. The per share grant date price was \$19.00. These restricted shares also earn non-forfeitable dividends throughout the vesting period. In addition, from time to time, new employees and directors have been issued restricted shares. These restricted shares are issued at a price equal to the share price on the grant date. The board also issued new time-based options and time-based restricted stock to certain of its employees and directors in February 2015.

The Company recognized stock-based compensation expense of approximately \$1.7 million and \$1.6 million for the three months ended September 30, 2015 and 2014, respectively. The Company recognized stock-based compensation expense of approximately \$5.1 million and \$4.7 million for the nine months ended September 30, 2015 and 2014, respectively. In addition, the Company had unrecognized compensation expense of approximately \$4.2 million as of September 30, 2015. This expense will be recognized over the remaining vesting period, or approximately 0.6 years.

##### Performance-Based Awards

On April 17, 2013, the Company approved grants of performance-based options and performance-based restricted stock under the LTIP. These awards generally vest over three years upon the achievement of certain performance-based objectives. These awards are expensed based on the grant date fair value if it is probable that the performance conditions will be achieved.

The Company recognized stock-based compensation expense related to the April 2013 grant of approximately \$0.1 million and \$0.3 million for the three months ended September 30, 2015 and 2014, respectively. The Company recognized stock-based compensation expense related to the April 2013 grant of approximately \$0.5 million and \$0.8 million for the nine months ended September 30, 2015 and 2014, respectively. In addition, the Company had unrecognized compensation expense of

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approximately \$0.3 million as of September 30, 2015. This expense will be recognized over the remaining vesting period, or approximately 0.6 years.

The performance criteria are based on achieving both an EBITDA and a relative stockholder return target by the end of the three-year period. The Company is recording a compensation charge based on achieving 62% of the EBITDA target and 100% of the relative return target.

On February 7, 2014, the Company approved grants of performance-based restricted stock under the LTIP. These awards generally vest over three years upon the achievement of certain performance-based objectives. These awards are expensed based on the grant date fair value if it is probable that the performance conditions will be achieved.

The Company recognized stock-based compensation expense related to the February 2014 grant of approximately \$0.4 million and \$0.7 million for the three months ended September 30, 2015 and 2014, respectively. The Company recognized stock-based compensation expense related to the February 2014 grant of approximately \$1.5 million and \$2.1 million for the nine months ended September 30, 2015 and 2014, respectively. In addition, the Company had unrecognized compensation expense of approximately \$2.4 million as of September 30, 2015. This expense will be recognized over the remaining vesting period, or approximately 1.2 years.

The performance criteria is based on achieving both an EBITDA and a relative return target by the end of the three-year period. The Company is recording a compensation charge based on achieving 92% of the EBITDA target and 100% of the relative return target.

On February 10, 2015, the Company approved grants of performance-based restricted stock under the LTIP. The performance-based restricted stock will vest annually based upon the achievement of certain criteria for each year of a three-year measurement period. Fifty percent of the awards is subject to performance measurement criteria based on achieving a targeted return on assets and the other fifty percent of the awards is subject to performance measurement criteria based on achieving total stockholder return on CyrusOne common stock on a cumulative basis that meets or exceeds the return of the MSCI REIT Index. The first two years are capped at 100% of the target with a cumulative true-up in year three, and a maximum of 200% of the target awards may be earned. These awards are expensed based on the grant date fair value if it is probable that the performance conditions will be achieved.

The Company recognized stock-based compensation expense related to the February 2015 grant of approximately \$1.2 million and \$2.3 million for the three and nine months ended September 30, 2015, respectively. The Company is recording a compensation charge based on achieving 122% of the return on assets target and 100% of the relative return target. In addition, the Company had unrecognized compensation expense of approximately \$3.1 million as of September 30, 2015. This expense will be recognized over the remaining vesting period, or approximately 1.3 years. In addition, the compensation expense mentioned above in aggregate, includes \$0.9 million due to the acceleration of equity awards on the termination of a senior executive.

## 12. Loss per Share

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

Diluted loss per share is calculated using the weighted average number of shares of common stock outstanding during the period, including restricted stock outstanding. If there is net income during the period, the dilutive impact of common stock equivalents outstanding would also be reflected.



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The following table reflects the computation of basic and diluted net loss per share for the three and nine months ended September 30, 2015 and September 30, 2014:

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014		Nine Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
(amounts and shares in millions, except per share amount)								
Numerator:								
Net loss attributed to common shareholders	\$(4.6 )	\$(4.6 )	\$0.1	\$0.1	\$(14.4 )	\$(14.4 )	\$(0.8 )	\$(0.8 )
Less: Restricted stock dividends	(0.3 )	(0.3 )	(0.2 )	(0.2 )	(0.8 )	(0.8 )	(0.7 )	(0.6 )
Net loss available to shareholders	\$(4.9 )	\$(4.9 )	\$(0.1 )	\$(0.1 )	\$(15.2 )	\$(15.2 )	\$(1.5 )	\$(1.4 )
Denominator:								
Weighted average common outstanding-basic	64.3	64.3	36.9	36.9	50.6	50.6	26.5	26.5
Performance-based restricted stock <sup>(1)(2)</sup>		—		—		—		—
Convertible securities <sup>(1)(2)</sup>		—		—		—		—
Weighted average shares outstanding-diluted		64.3		36.9		50.6		26.5
EPS:								
Net loss per share-basic	\$(0.08 )		\$—		\$(0.30 )		\$(0.06 )	
Effect of dilutive shares:								
Net loss per share-diluted	\$(0.08 )		\$—		\$(0.30 )		\$(0.06 )	

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

<sup>(2)</sup> We have excluded 0.9 million shares of restricted stock, and 36.9 million of operating partnership units which are securities that are convertible into our common stock, from our diluted earnings per share as of September 30, 2014, as these securities were deemed anti-dilutive.

## CyrusOne Inc. and CyrusOne LP

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## 13. Related Party Transactions

The condensed consolidated financial statements reflect the following transactions with CBI and its affiliated entities, including Cincinnati Bell Telephone (“CBT”) and Cincinnati Bell Technology Solutions (“CBTS”):

Revenue—The Company records revenues from CBI under contractual service arrangements. These services include leasing of data center space, power and cooling in certain areas 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.

The following related party transactions are based on agreements and arrangements that were in place during the respective periods. Revenues and expenses for the periods presented were as follows:

(amounts in millions)	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Revenue:				
Data center colocation agreement provided to CBT and CBTS	\$2.0	\$1.7	\$5.7	\$4.7
229 West 7th Street lease provided to CBT	0.5	0.5	1.6	1.5
Goldcoast Drive/Parkway (Mason) lease	—	0.1	0.1	0.3
Transition services provided to CBTS (network interfaces)	0.1	0.1	0.2	0.3
Data center leases provided to CBTS	2.7	3.3	8.9	10.5
Total revenue	\$5.3	\$5.7	\$16.5	\$17.3
Operating costs and expenses:				
Transition services agreement by CBTS	\$0.1	\$0.2	\$0.4	\$0.8
Charges for services provided by CBT (connectivity)	0.2	0.3	0.7	0.8
209 West 7th Street rent provided by CBT	0.1	—	0.1	0.1
Total operating costs and expenses	\$0.4	\$0.5	\$1.2	\$1.7

As of September 30, 2015 and December 31, 2014, the amounts receivable from and payable to CBI were as follows:

(amounts in millions)	As of September 30, 2015	As of December 31, 2014
Accounts receivable from CBI	\$1.3	\$0.8
Accounts payable	\$0.7	\$1.7
Dividends/distributions payable	2.0	5.6
Total accounts payable	\$2.7	\$7.3

The dividends/distributions payable as of September 30, 2015, reflect the balance due to subsidiaries of CBI related to the dividend and distribution announced on August 5, 2015, of \$0.315 per share and operating partnership unit, based on CBI's ownership of common shares of CyrusOne Inc. and operating partnership units of CyrusOne LP as of the Record Date of September 25, 2015.

## 14. Income Taxes

CyrusOne Inc. has elected to be taxed as a REIT under the Code, commencing with our initial taxable year ended December 31, 2013. To qualify 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 qualify for taxation as a REIT, we are generally not subject to corporate level federal income tax on the earnings distributed currently to our shareholders. It is our policy and intent, subject

CyrusOne Inc. and CyrusOne LP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

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 \$0.7 million and \$0.4 million for the three months ended September 30, 2015 and 2014, respectively. Income tax expense was \$1.5 million and \$1.1 million for the nine months ended September 30, 2015 and 2014, respectively.

In conjunction with the Company's tax sharing arrangement with CBI, CBI may be required to file Texas margin tax returns on a consolidated, combined or unitary basis with the Company for any given year. If such return is prepared by CBI on a combined or consolidated basis to include the Company, the related Texas margin tax of the Company will be paid by CBI. The Company will then reimburse CBI for its portion of the related Texas margin tax. The Texas margin tax payable was \$0.7 million as of September 30, 2015 and \$1.7 million as of December 31, 2014. Effective June 26, 2014, CBI's ownership percentage in the operating partnership was reduced to below 50 percent. As a result, the Company files its own Texas margin tax return and therefore, reimbursements to CBI by the Company are no longer necessary.

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, 2015 and December 31, 2014. As of September 30, 2015 and December 31, 2014, the net domestic and foreign deferred tax assets were zero.

15. Guarantors

CyrusOne Inc.

CyrusOne LP and CyrusOne Finance Corp., as "LP Co-issuer" and "Finance Co-issuer," respectively (together, the "Issuers"), had \$477.7 million aggregate principal amount of 6.375% senior notes outstanding, including bond premium, at September 30, 2015. As of September 30, 2015, the 6.375% senior notes are fully and unconditionally and jointly and severally guaranteed on a senior basis by CyrusOne Inc. (the "Parent Guarantor"), CyrusOne GP (the "General Partner"), and CyrusOne LP's 100% owned subsidiaries, CyrusOne LLC, CyrusOne TRS Inc. and CyrusOne Foreign Holdings LLC, Cervalis Holdings LLC, and Cervalis LLC (such subsidiaries, together the "Guarantors"). None of CyrusOne LP's subsidiaries organized outside of the United States (collectively, the "Non-Guarantors") 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.

As of September 30, 2015, the following provides information regarding the entity structure of each Issuer and guarantor of the 6.375% senior notes:

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 was a 100% owned subsidiary of CyrusOne Inc. as of January 23, 2013. Effective upon completion of CyrusOne Inc.'s IPO, this entity became the general partner and 1% owner of

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

CyrusOne LP and has no other assets or operations. Prior to the IPO, this entity did not incur any obligations or record any transactions.

**Issuers** – The Issuers are CyrusOne LP and CyrusOne Finance Corp. CyrusOne Finance Corp., a 100% 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 Guarantors and Non-Guarantors.

**Guarantors** – The guarantors include CyrusOne LLC, CyrusOne TRS Inc., and CyrusOne Foreign Holdings LLC. In addition, on July 2, 2015, following the completion of the Cervalis acquisition, Cervalis and its wholly owned subsidiary, Cervalis LLC (together with Cervalis, the "Cervalis Subsidiaries") agreed to provide unconditional guarantees of the issuers' obligations under the senior notes. The guarantee of each Cervalis Subsidiary is (i) a senior unsecured obligation of such Cervalis Subsidiary, (ii) pari passu in right of payment with any existing and future unsecured senior indebtedness of such Cervalis Subsidiary, (iii) senior in right of payment to any future subordinated indebtedness of such Cervalis Subsidiary and (iv) effectively subordinated in right of payment to all existing and future secured indebtedness of such Cervalis 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-Guarantors.

Non-Guarantors consist of 100% owned subsidiaries which conduct operations in the United Kingdom and Singapore. The following schedules present the balance sheets as of September 30, 2015 and December 31, 2014, and the statements of operations for the three and nine months ended September 30, 2015 and September 30, 2014, and the statements of cash flows for the nine months ended September 30, 2015 and September 30, 2014 for the Parent Guarantor, General Partner, LP Co-issuer, Finance Co-issuer, Guarantors, and Non-Guarantors.

For the three and nine months ended September 30, 2014, the Company has revised its Guarantor Condensed Consolidated Balance Sheets, Condensed Consolidating Statements of Income, and Condensed Consolidating Statements of Cash Flows to correct an immaterial error in the prior periods. Previously, the Investment in Subsidiaries and Equity Loss related to Investment in Subsidiaries reported by the Parent Guarantors included amounts related to noncontrolling interests. Those noncontrolling interest amounts are now reported in the Eliminations/Consolidations column. The impact of those changes was to reduce the dividends paid by the Parent Guarantor and return on investment by \$21.4 million in the Statement of Cash Flows for the period ended September 30, 2014. These errors had no effect on the consolidated financials of either CyrusOne Inc. or CyrusOne LP and is not material to the consolidated financial statements taken as a whole.

The Condensed Consolidating Statements of Cash Flows for the nine months ended September 30, 2015, includes the acquisition of Cervalis in July 2015. The results for Cervalis are included in the Guarantor financial statements subsequent to the acquisition.

## CyrusOne Inc. and CyrusOne LP

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

## Condensed Consolidating Balance Sheets

(amounts in millions)	As of September 30, 2015							Totals
	Parent Guarantor	General LP Partner	Co-issuer	Finance Co-issuer	Guarantors	Non-Guarantors	Eliminations/Consolidations	
Land	\$—	\$—	\$—	\$—	\$93.0	\$—	\$—	\$93.0
Buildings and improvements	—	—	—	—	857.4	40.3	—	897.7
Equipment	—	—	—	—	552.1	0.9	2.6	555.6
Construction in progress	—	—	—	—	186.0	0.1	1.0	187.1
Subtotal	—	—	—	—	1,688.5	41.3	3.6	1,733.4
Accumulated depreciation	—	—	—	—	(395.3)	(9.1)	—	(404.4)
Net investment in real estate	—	—	—	—	1,293.2	32.2	3.6	1,329.0
Cash and cash equivalents	1.7	—	—	—	33.0	5.1	—	39.8
Investment in subsidiaries	784.3	8.4	878.5	—	1.6	—	(1,672.8)	—
Restricted cash	—	—	—	—	7.1	—	—	7.1
Rent and other receivables	—	—	—	—	73.2	1.3	—	74.5
Intercompany receivable	—	—	959.9	—	1.7	—	(961.6)	—
Goodwill	—	—	—	—	453.4	—	—	453.4
Intangible assets, net	—	—	—	—	175.7	—	—	175.7
Due from affiliates and parent	—	—	—	—	1.3	—	—	1.3
Other assets	—	—	19.4	—	78.3	3.1	—	100.8
Total assets	\$786.0	\$8.4	\$1,857.8	\$—	\$2,118.5	\$41.7	\$ (2,630.8)	\$2,181.6
Accounts payable and accrued expenses	\$—	\$—	\$35.6	\$—	\$78.9	\$1.8	\$—	\$116.3
Deferred revenue	—	—	—	—	73.5	0.6	—	74.1
Intercompany payable	1.7	—	—	—	959.9	—	(961.6)	—
Due to affiliates	—	—	2.0	—	0.7	—	—	2.7
Capital lease obligations	—	—	—	—	6.6	6.2	—	12.8
Long-term debt	—	—	982.7	—	—	—	—	982.7
Other financing arrangements	—	—	—	—	120.4	31.5	—	151.9
Total liabilities	1.7	—	1,020.3	—	1,240.0	40.1	(961.6)	1,340.5
Total shareholders' equity	784.3	8.4	837.5	—	878.5	1.6	(1,722.4)	787.9
Noncontrolling interest	—	—	—	—	—	—	53.2	53.2
Total equity	784.3	8.4	837.5	—	878.5	1.6	(1,669.2)	841.1
Total liabilities and equity	\$786.0	\$8.4	\$1,857.8	\$—	\$2,118.5	\$41.7	\$ (2,630.8)	\$2,181.6





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(amounts in millions)	As of December 31, 2014							Total
	Parent Guarantor	General Partner	LP Co-issuer	Finance Co-issuer	Guarantors	Non- Guarantors	Eliminations/ Consolidations	
Land	\$—	\$—	\$—	\$—	\$ 89.7	\$—	\$ —	\$89.7
Buildings and improvements	—	—	—	—	770.9	41.7	—	812.6
Equipment	—	—	—	—	348.3			