

CyrusOne Inc.  
Form 10-Q  
August 10, 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 June 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 (I.R.S. Employer  
incorporation or organization) Identification No.)  
1649 West Frankford Road, Carrollton, TX 75007

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

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

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"/>
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Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
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CyrusOne LP

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
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Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
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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 66,241,461 shares of common stock outstanding as of July 31, 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 June 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 June 30, 2015, and after giving effect to the April 2015 and June 2015 equity offerings and the use of proceeds therefrom, the total number of outstanding shares of common stock and operating partnership units was 72.6 million. Following the application of the offering proceeds to acquire common units of limited partnership interests in CyrusOne LP from our former parent, Cincinnati Bell Inc. (“CBI”), CBI held an 8.7% noncontrolling interest in the operating partnership. As of June 30, 2015, CBI owned approximately 11.3% of CyrusOne through its 2.6% interest in the outstanding shares of common stock of CyrusOne Inc. (comprised of the outstanding common stock and the common units of limited partnership interest that may be exchanged by CBI for common stock) and its 8.7% interest in the common units of the limited partnership interest of CyrusOne LP. 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.

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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.

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 June 30, 2015	As of December 31, 2014	
Assets			
Investment in real estate:			
Land	\$93.0	\$89.7	
Buildings and improvements	824.2	812.6	
Equipment	423.4	349.1	
Construction in progress	125.8	127.0	
Subtotal	1,466.4	1,378.4	
Accumulated depreciation	(375.4	) (327.0	)
Net investment in real estate	1,091.0	1,051.4	
Cash and cash equivalents	413.5	36.5	
Rent and other receivables, net of allowance for doubtful accounts of \$1.1 and \$1.0 as of June 30, 2015 and December 31, 2014, respectively	56.3	60.9	
Goodwill	276.2	276.2	
Intangible assets, net of accumulated amortization of \$79.4 and \$72.1 as of June 30, 2015 and December 31, 2014, respectively	61.6	68.9	
Due from affiliates	1.7	0.8	
Other assets	91.4	91.8	
Total assets	\$1,991.7	\$1,586.5	
Liabilities and equity			
Accounts payable and accrued expenses	\$90.0	\$69.9	
Deferred revenue	66.5	65.7	
Due to affiliates	174.9	7.3	
Capital lease obligations	12.1	13.4	
Long-term debt	729.8	659.8	
Other financing arrangements	52.8	53.4	
Total liabilities	1,126.1	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 66,268,923 and 38,651,517 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	0.6	0.4	
Additional paid in capital	908.3	516.5	
Accumulated deficit	(98.9	) (55.9	)
Accumulated other comprehensive loss	(0.3	) (0.3	)
Total shareholders' equity	809.7	460.7	
Noncontrolling interest	55.9	256.3	
Total equity	865.6	717.0	
Total liabilities and equity	\$1,991.7	\$1,586.5	



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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue	\$89.1	\$81.7	\$174.8	\$159.2
Costs and expenses:				
Property operating expenses	32.8	31.8	65.1	59.5
Sales and marketing	2.8	3.5	5.7	6.5
General and administrative	9.9	8.4	19.0	15.7
Depreciation and amortization	31.4	29.8	62.5	57.4
Transaction costs	9.6	0.8	9.7	0.9
Asset impairments	—	—	8.6	—
Total costs and expenses	86.5	74.3	170.6	140.0
Operating income	2.6	7.4	4.2	19.2
Interest expense	8.7	10.7	17.1	21.4
Net loss before income taxes	(6.1	) (3.3	) (12.9	) (2.2
Income tax expense	(0.4	) (0.3	) (0.8	) (0.7
Net loss	(6.5	) (3.6	) (13.7	) (2.9
Noncontrolling interest in net loss	(1.0	) (2.5	) (3.9	) (2.0
Net loss attributed to common shareholders	\$(5.5	) \$(1.1	) \$(9.8	) \$(0.9
Basic weighted average common shares outstanding	51.1	21.7	44.1	21.3
Diluted weighted average common shares outstanding	51.1	21.7	44.1	21.3
Loss per share - basic and diluted	\$(0.11	) (0.06	) (0.23	) (0.06
Dividends declared per share	\$0.315	\$0.210	\$0.630	\$0.420

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

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CyrusOne Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited and amounts in millions)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net loss	\$(6.5 )	\$(3.6 )	\$(13.7 )	\$(2.9 )
Other comprehensive loss:				
Foreign currency translation adjustments	0.3	—	—	—
Comprehensive loss	(6.2 )	(3.6 )	(13.7 )	(2.9 )
Comprehensive loss attributable to noncontrolling interests	(1.0 )	(2.5 )	(3.9 )	(2.0 )
Comprehensive loss attributable to CyrusOne Inc.	\$(5.2 )	\$(1.1 )	\$(9.8 )	\$(0.9 )

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	Additional Paid In Capital Amount	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	—	—	—	(2.9 )	—	(2.9 )	—	(2.9 )
Noncontrolling interest allocated net loss	—	—	—	2.0	—	2.0	(2.0 )	—
Stock issuance costs	—	—	(1.3 )	—	—	(1.3 )	—	(1.3 )
Stock based compensation	0.7	—	5.0	—	—	5.0	—	5.0
Issuance of common stock	16.0	0.2	355.7	—	—	355.9	—	355.9
Redemption of noncontrolling interest	—	—	(189.0 )	—	—	(189.0 )	(166.9 )	(355.9 )
Dividends and distributions, \$0.42 per share	—	—	—	(12.9 )	—	(12.9 )	(14.5 )	(27.4 )
Balance at June 30, 2014	38.7	\$ 0.4	\$ 511.1	\$ (32.7 )	\$ —	\$ 478.8	\$ 272.2	\$ 751.0
Balance January 1, 2015	38.7	\$ 0.4	\$ 516.5	\$ (55.9 )	\$ (0.3 )	\$ 460.7	\$ 256.3	\$ 717.0
Net loss	—	—	—	(13.7 )	—	(13.7 )	—	(13.7 )
Noncontrolling interest allocated net loss	—	—	—	3.9	—	3.9	(3.9 )	—
Stock issuance costs	—	—	(0.6 )	—	—	(0.6 )	—	(0.6 )
Stock based compensation	0.3	—	6.2	—	—	6.2	—	6.2
Common stock repurchases	—	—	(0.7 )	—	—	(0.7 )	—	(0.7 )
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 )
Dividends and distributions, \$0.63 per share	—	—	—	(33.2 )	—	(33.2 )	(12.3 )	(45.5 )
Balance at June 30, 2015	66.3	\$ 0.6	\$ 908.3	\$ (98.9 )	\$ (0.3 )	\$ 809.7	\$ 55.9	\$ 865.6

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)

	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Cash flows from operating activities:		
Net loss	\$(13.7	) \$(2.9
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	62.5	57.4
Noncash interest expense	1.4	1.8
Stock-based compensation expense	6.2	5.0
Provision for bad debt write off	0.2	0.6
Asset impairments	8.6	—
Change in operating assets and liabilities:		
Rent receivables and other assets	(7.8	) (31.4
Accounts payable and accrued expenses	5.4	2.5
Deferred revenues	0.8	10.8
Due to affiliates	(1.9	) 0.2
Net cash provided by operating activities	61.7	44.0
Cash flows from investing activities:		
Capital expenditures – acquisitions of real estate	(17.3	) —
Capital expenditures – other development	(74.2	) (116.8
Net cash used in investing activities	(91.5	) (116.8
Cash flows from financing activities:		
Issuance of common stock	799.3	355.9
Stock issuance costs	(0.6	) (0.5
Acquisition of operating partnership units	(426.0	) (355.9
Dividends paid	(33.8	) (24.0
Borrowings from revolving credit agreement	70.0	—
Payments on capital leases and other financing arrangements	(2.1	) (2.2
Net cash provided by (used in) financing activities	406.8	(26.7
Net increase (decrease) in cash and cash equivalents	377.0	(99.5
Cash and cash equivalents at beginning of period	36.5	148.8
Cash and cash equivalents at end of period	\$413.5	\$49.3
Supplemental disclosures of cash flow information		
Cash paid for interest	\$18.5	\$20.5
Cash paid for income taxes	1.9	0.3
Supplemental disclosures of non cash investing and financing activities		
Capitalized interest	\$2.5	\$0.9
Acquisition of property in accounts payable and other liabilities	27.2	45.0
Dividends declared	25.3	13.7
Forward contract for purchase of operating partnership units	170.3	—
Stock issuance costs	—	0.8
Debt issuance costs	3.1	—
Taxes on vesting of shares	0.7	—

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 June 30, 2015	As of December 31, 2014
Assets		
Investment in real estate:		
Land	\$93.0	\$89.7
Buildings and improvements	824.2	812.6
Equipment	423.4	349.1
Construction in progress	125.8	127.0
Subtotal	1,466.4	1,378.4
Accumulated depreciation	(375.4	) (327.0
Net investment in real estate	1,091.0	1,051.4
Cash and cash equivalents	413.5	36.5
Rent and other receivables, net of allowance for doubtful accounts of \$1.1 and \$1.0 as of June 30, 2015 and December 31, 2014, respectively	56.3	60.9
Goodwill	276.2	276.2
Intangible assets, net of accumulated amortization of \$79.4 and \$72.1 as of June 30, 2015 and December 31, 2014, respectively	61.6	68.9
Due from affiliates	1.7	0.8
Other assets	91.4	91.8
Total assets	\$1,991.7	\$1,586.5
Liabilities and parent's net investment		
Accounts payable and accrued expenses	\$90.0	\$69.9
Deferred revenue	66.5	65.7
Due to affiliates	174.9	7.3
Capital lease obligations	12.1	13.4
Long-term debt	729.8	659.8
Other financing arrangements	52.8	53.4
Total liabilities	1,126.1	869.5
Commitments and contingencies		
Parent's net investment:		
Partnership capital	865.6	717.0
Total liabilities and partnership capital	\$1,991.7	\$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 June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Revenue	\$89.1	\$81.7	\$174.8	\$159.2
Costs and expenses:				
Property operating expenses	32.8	31.8	65.1	59.5
Sales and marketing	2.8	3.5	5.7	6.5
General and administrative	9.9	8.4	19.0	15.7
Depreciation and amortization	31.4	29.8	62.5	57.4
Transaction costs	9.6	0.8	9.7	0.9
Asset impairments	—	—	8.6	—
Total costs and expenses	86.5	74.3	170.6	140.0
Operating income	2.6	7.4	4.2	19.2
Interest expense	8.7	10.7	17.1	21.4
Net loss before income taxes	(6.1	) (3.3	) (12.9	) (2.2
Income tax expense	(0.4	) (0.3	) (0.8	) (0.7
Net loss	\$(6.5	) \$(3.6	) \$(13.7	) \$(2.9

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

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CyrusOne LP

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(unaudited and amounts in millions)

	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Net loss	\$(6.5 )	\$(3.6 )	\$(13.7 )	\$(2.9 )
Other comprehensive loss:				
Foreign currency translation adjustments	0.3	—	—	—
Comprehensive loss attributable to CyrusOne LP	\$(6.2 )	\$(3.6 )	\$(13.7 )	\$(2.9 )

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	—	(2.9 )
Compensation expense of CyrusOne Inc. allocated to operating partnership	—	5.0
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	—	(27.4 )
Balance at June 30, 2014	65.3	\$751.0
Balance January 1, 2015	65.3	\$717.0
Net loss	—	(13.7 )
Compensation expense of CyrusOne Inc. allocated to operating partnership	—	5.5
Distributions to CyrusOne, Inc.	—	(0.6 )
Net partnership units issued to CyrusOne Inc.	0.3	—
Partnership units purchased by CyrusOne Inc.	27.3	799.3
Partnership units sold by CBI	(20.3 )	(596.4 )