

CyrusOne Inc.
Form 10-Q
November 01, 2018
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, 2018

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

For the transition period _____ to _____

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

CyrusOne Inc.

(Exact name of registrant as specified in its charter)

Maryland 46-0691837

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

2101 Cedar Springs Road, Suite 900, Dallas, TX 75201

(Address of Principal Executive Offices) (Zip Code)

(972) 350-0060

(Registrant's telephone number, including area code)

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes No

Edgar Filing: CyrusOne Inc. - Form 10-Q

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

There were 105,834,497 shares of common stock outstanding as of October 26, 2018 with a par value of \$0.01 per share.

EXPLANATORY NOTE

Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” “our Company” or “the Company” refer to CyrusOne Inc., a Maryland corporation, together with its consolidated subsidiaries, including CyrusOne LP, a Maryland limited partnership. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to CyrusOne LP together with its consolidated subsidiaries.

CyrusOne Inc. is a real estate investment trust, or REIT, whose only material asset is its ownership of operating partnership units of CyrusOne LP. As a result, CyrusOne Inc. does not conduct business itself, other than acting as the sole beneficial owner and sole trustee of CyrusOne GP (the sole general partner of CyrusOne LP), a Maryland statutory trust, issuing public equity from time to time and guaranteeing certain debt of CyrusOne LP and certain of its subsidiaries. CyrusOne Inc. itself does not issue any indebtedness but guarantees the debt of CyrusOne LP and certain of its subsidiaries, as disclosed in this report. CyrusOne LP and its subsidiaries hold substantially all the assets of the Company. CyrusOne LP conducts the operations of the business, along with its subsidiaries, and is structured as a partnership with no publicly traded equity. Except for net proceeds from public equity issuances by CyrusOne Inc., which are generally contributed to CyrusOne LP in exchange for operating partnership units, CyrusOne LP generates the capital required for the Company's business through CyrusOne LP's operations and by CyrusOne LP's incurrence of indebtedness.

As of September 30, 2018, the total number of outstanding shares of our common stock was approximately 105.8 million. CyrusOne Inc., directly or indirectly, owns all the operating partnership units of CyrusOne LP. As the direct or indirect owner of all the operating partnership units of CyrusOne LP and as sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner of CyrusOne LP, CyrusOne Inc. has the full, exclusive and complete responsibility for the operating partnership's day-to-day management and control.

INDEX	Page
PART I. FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2018 and December 31, 2017</u>	<u>5</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>7</u>
<u>Condensed Consolidated Statements of Equity for the Nine Months Ended September 30, 2018 and 2017</u>	<u>8</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2018 and 2017</u>	<u>9</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>10</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>33</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>46</u>
<u>Item 4. Controls and Procedures</u>	<u>48</u>
PART II. OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>49</u>
<u>Item 1A. Risk Factors</u>	<u>49</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>49</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>49</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>49</u>
<u>Item 5. Other Information</u>	<u>49</u>
<u>Item 6. Exhibits</u>	<u>50</u>
<u>Signatures</u>	<u>51</u>

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CyrusOne Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in millions, except share and per share amounts)

(unaudited)

	September 30, 2018	December 31, 2017
Assets		
Investment in real estate:		
Land	\$ 125.2	\$ 104.6
Buildings and improvements	1,587.3	1,371.4
Equipment	2,452.5	1,813.9
Gross operating real estate	4,165.0	3,289.9
Less accumulated depreciation	(973.4)	(782.4)
Net operating real estate	3,191.6	2,507.5
Construction in progress, including land under development	738.6	487.1
Land held for future development	189.6	63.8
Total investment in real estate, net	4,119.8	3,058.4
Cash and cash equivalents	61.0	151.9
Rent and other receivables (net of allowance for doubtful accounts of \$2.0 and \$2.1 as of September 30, 2018 and December 31, 2017, respectively)	104.5	87.2
Equity investment	282.2	175.6
Goodwill	455.1	455.1
Intangible assets (net of accumulated amortization of \$154.9 and \$136.1 as of September 30, 2018 and December 31, 2017, respectively)	248.4	203.0
Other assets	222.1	180.9
Total assets	\$ 5,493.1	\$ 4,312.1
Liabilities and equity		
Debt, net	\$ 2,576.2	\$ 2,089.4
Capital lease obligations and lease financing arrangements	162.7	142.0
Construction costs payable	160.5	115.5
Accounts payable and accrued expenses	96.8	97.9
Dividends payable	49.7	41.8
Deferred revenue and prepaid rents	139.5	111.6
Deferred tax liability	68.7	—
Total liabilities	3,254.1	2,598.2
Commitments and contingencies		
Stockholders' 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 105,834,067 and 96,137,874 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	1.1	1.0
Additional paid in capital	2,685.3	2,125.6
Accumulated deficit	(444.3)	(486.9)
Accumulated other comprehensive income (loss)	(3.1)	74.2
Total stockholders' equity	2,239.0	1,713.9
Total liabilities and equity	\$ 5,493.1	\$ 4,312.1

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

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2018	2017	2018	2017
Revenue:				
Lease and other revenues from customers	\$177.6	\$155.5	\$525.2	\$440.8
Metered power reimbursements	29.0	19.8	74.9	50.7
Revenue	206.6	175.3	600.1	491.5
Operating expenses:				
Property operating expenses	77.7	63.0	214.4	174.9
Sales and marketing	4.3	3.9	14.0	13.1
General and administrative	19.3	17.5	57.2	50.6
Depreciation and amortization	84.0	68.7	236.2	188.1
Transaction, acquisition, integration and other related expenses	1.1	4.1	3.4	6.6
Impairment losses	—	54.4	—	58.0
Total operating expenses	186.4	211.6	525.2	491.3
Operating income	20.2	(36.3)	74.9	0.2
Interest expense	(25.8)	(17.9)	(69.4)	(48.0)
Unrealized gain (loss) on marketable equity investment	(36.6)	—	106.6	—
Loss on early extinguishment of debt	—	—	(3.1)	(36.5)
Net income (loss) before income taxes	(42.2)	(54.2)	109.0	(84.3)
Income tax expense	(0.2)	(0.9)	(2.0)	(2.0)
Net income (loss)	\$(42.4)	\$(55.1)	\$107.0	\$(86.3)
Weighted average number of common shares outstanding - basic	98.8	90.4	97.8	87.5
Weighted average number of common shares outstanding - diluted	98.8	90.4	98.4	87.5
Income (loss) per share - basic	\$(0.43)	\$(0.61)	\$1.09	\$(0.99)
Income (loss) per share - diluted	\$(0.43)	\$(0.61)	\$1.08	\$(0.99)
Dividends declared per share	\$0.46	\$0.42	\$1.38	\$1.26

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

CyrusOne Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions)

(unaudited)

	Three Months		Nine Months	
	Ended	Ended	Ended	Ended
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
Net income (loss)	\$(42.4)	\$(55.1)	\$107.0	\$(86.3)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(1.8)	(0.1)	(1.7)	—
Comprehensive income (loss)	\$(44.2)	\$(55.2)	\$105.3	\$(86.3)

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

7

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

	Stockholders' Equity			Accumulated		Total
	Shares	Common	Additional	Accumulated	Other	Stockholders'
	of	Stock	Paid In	Deficit	Comprehensive	Equity
	Common	Capital			Income	
	Stock				(Loss)	
	Outstanding					
Balance January 1, 2017	83.5	\$ 0.8	\$1,412.3	\$ (249.8	)\$ (1.3	) \$ 1,162.0
Net loss	—	—	—	(86.3	)—	(86.3)
Stock-based compensation expense	(0.1	)—	11.6	—	—	11.6
Tax payment upon exercise of equity awards	(0.1	)—	(6.6	)—	—	(6.6)
Issuance of common stock, net	8.0	0.1	408.7	—	—	408.8
Dividends declared, \$1.26 per share	—	—	—	(113.1	)—	(113.1)
Balance at September 30, 2017	91.3	\$ 0.9	\$1,826.0	\$ (449.2	)\$ (1.3	) \$ 1,376.4
Balance at January 1, 2018	96.1	\$ 1.0	\$2,125.6	\$ (486.9	)\$ 74.2	\$ 1,713.9
Adoption of accounting standards:						
Revenue recognition, cumulative modified retrospective	—	—	—	0.3	—	0.3
Financial instruments (equity investment), cumulative adjustment	—	—	—	75.6	(75.6) —
Issuance of common stock, net	9.8	0.1	551.8	—	—	551.9
Net income	—	—	—	107.0	—	107.0
Stock-based compensation expense	—	—	13.0	—	—	13.0
Tax payment upon exercise of equity awards	(0.1	)—	(5.1	)—	—	(5.1)
Foreign currency translation adjustment	—	—	—	—	(1.7	) (1.7)
Dividends declared, \$1.38 per share	—	—	—	(140.3	)—	(140.3)
Balance at September 30, 2018	105.8	\$ 1.1	\$2,685.3	\$ (444.3	)\$ (3.1	) \$ 2,239.0

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

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

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$107.0	\$(86.3)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	236.2	188.1
Interest expense amortization, net	3.0	3.4
Stock-based compensation expense	13.0	11.6
Provision for bad debt expense	0.6	0.5
Unrealized gain on marketable equity investment	(106.6)	—
Loss on early extinguishment of debt	3.1	36.5
Impairment losses	—	58.0
Other	—	1.3
Change in operating assets and liabilities:		
Rent and other receivables, net and other assets	(55.4)	(53.7)
Accounts payable and accrued expenses	(23.4)	)3.5
Deferred revenue and prepaid rents	25.4	27.2
Net cash provided by operating activities	202.9	190.1
Cash flows from investing activities:		
Asset acquisitions, primarily real estate, net of cash acquired	(461.8)	(492.3)
Investment in real estate	(631.2)	(709.1)
Net cash used in investing activities	(1,093.0)	(1,201.4)
Cash flows from financing activities:		
Issuance of common stock, net	551.9	408.8
Dividends paid	(132.3)	(107.4)
Proceeds from debt, net	1,665.1	1,946.0
Payments on debt	(1,272.7)	(1,212.1)
Payments on capital lease obligations and lease financing arrangements	(7.8)	(7.3)
Tax payment upon exercise of equity awards	(5.1)	(6.6)
Net cash provided by financing activities	799.1	1,021.4
Effect of exchange rate changes on cash, cash equivalents and restricted cash	0.1	—
Net increase (decrease) in cash, cash equivalents and restricted cash	(90.9)	)10.1
Cash, cash equivalents and restricted cash at beginning of period	151.9	14.6
Cash, cash equivalents and restricted cash at end of period	\$61.0	\$24.7

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

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

1. Description of Business

CyrusOne Inc., together with CyrusOne GP (the "General Partner"), a wholly-owned subsidiary of CyrusOne Inc., through which CyrusOne Inc. wholly owns CyrusOne LP (the "Operating Partnership") and the subsidiaries of the Operating Partnership (collectively, "CyrusOne", "we", "us", "our", and the "Company") is an owner, operator and developer of enterprise-class, carrier-neutral, multi-tenant and single-tenant data center properties. Our customers operate in a number of industries, including information technology, financial services, energy, oil and gas, mining, medical and consumer goods and services. We currently operate 47 data centers and two recovery centers located in the United States, United Kingdom, Germany and Singapore.

On January 24, 2013, the Company completed its initial public offering (the "IPO") of common stock and its common stock currently trades on the NASDAQ Exchange under the ticker symbol "CONE". As of September 30, 2018, all of the issued and outstanding Operating Partnership units of CyrusOne LP are owned, directly or indirectly, by the Company.

2. Summary of Significant Accounting Policies

Interim Unaudited Financial Information

The accompanying condensed consolidated 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, 2017, which was filed with the Securities and Exchange Commission ("SEC") on February 22, 2018. Certain information and footnote disclosures normally included in the consolidated financial statements prepared in accordance with GAAP have been omitted from this report on Form 10-Q pursuant to the rules and regulations of the SEC.

Results for the interim periods in this report are not necessarily indicative of future financial results and have not been audited by our independent registered public accounting firm. In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments necessary to present fairly our condensed consolidated financial statements as of September 30, 2018 and 2017, and for the three and nine months ended September 30, 2018 and 2017. These adjustments are of a normal recurring nature and consistent with the adjustments recorded to prepare the annual audited consolidated financial statements as of December 31, 2017. All amounts reflected are in millions except share and per share data.

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company, as well as all wholly-owned subsidiaries and any consolidated variable interest entities. All inter-company balances and transactions have been eliminated in consolidation.

Investment in Real Estate

Investment in real estate consists of land, buildings, improvements and equipment utilized in our data center operations and land held for future development. 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.

We capitalize project costs related to the development and construction of our data centers including interest, real estate taxes, insurance, and other direct costs. Indirect project costs not clearly related to development and construction are expensed as incurred. Indirect project costs that clearly relate to development and construction are capitalized and allocated to the developments to which they relate. For each development, capitalization begins when

we determine that the development is probable and significant development activities are underway. We suspend capitalization at such time as significant development activity ceases, but future development is still probable. We cease capitalization when the developments or other improvements are completed and ready for their intended use, or if the intended use changes such that capitalization is no longer appropriate. Building and related improvements are generally considered ready for their intended use when the designated premises, which could be less than the entire building, is ready for occupancy.

When we are the lessee of the property and we are involved in the construction of structural improvements, we are deemed the accounting owner of the leased real estate. At inception, the fair value of the building, excluding land, is recorded as a leasehold asset, and the construction and modification costs to the building that are not funded by us are recorded as a liability which is recorded as lease financing arrangements. As construction progresses, the asset and obligation increase by the cost of the structural

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

improvements, which approximate the fair value. At completion of the construction, if our involvement is deemed to continue, the leasehold asset is placed in service and depreciation commences.

Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Useful lives range from nine to thirty years for buildings, three to thirty years for building improvements, and two to twenty years for equipment. Leasehold improvements are amortized over the shorter of the asset's useful life or the remaining lease term, including renewal options which are reasonably assured, and to the lesser of the fair value or financing arrangement obligation estimated at the end of the lease term.

Impairment Losses

If events or circumstances indicate that the carrying amount of the real estate investment, including leased real estate investments, may not be recoverable, we make an assessment of the recoverability of the asset, usually at the individual property level, by comparing the carrying amount of the asset to our estimate of the aggregate undiscounted future operating cash flows expected to be generated over the holding period of the asset including its eventual disposition. If the carrying amount, including related real estate intangible assets, exceeds the aggregate undiscounted future operating cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the asset. We did not record any impairment losses for the three and nine months ended September 30, 2018 and recorded impairment losses of \$54.4 million and \$58.0 million for the three and nine months ended September 30, 2017, respectively, related to our leased data center facilities in the Connecticut markets, and with respect to the nine months ended September 30, 2017, our leased data center facility in Singapore.

Business Combinations and Asset Acquisitions

We evaluate whether a transaction is a business combination or an asset acquisition by determining whether the set of assets is a business. When substantially all of the fair value of gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the transaction is accounted for as an asset acquisition. In an asset acquisition, the purchase price paid for assets acquired is allocated between identified tangible and intangible assets acquired based on relative fair value. Transaction costs associated with asset acquisitions are capitalized. When substantially all of the fair value is not concentrated in a group of similar identifiable assets, the set of assets will generally be considered a business and 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. If the value of the acquisition is greater than the purchase price, a bargain purchase gain would be recorded. Transaction costs associated with business combinations are expensed as incurred.

The following discussion applies to our initial determination of fair value and the resulting subsequent accounting which is generally applicable to both asset acquisitions and business combinations.

The fair value of any tangible real estate assets acquired is determined by valuing the building as if it were vacant, and the "as-if-vacant" value is then allocated to land, buildings, equipment and improvements. Land values are derived from appraisals, and building values are calculated as replacement cost less depreciation or estimates of the relative fair value of these assets using net operating income capitalization rates, discounted cash flow analysis or similar methods.

We determine in-place lease values based on our evaluation of the specific characteristics of each tenant's lease agreement and by applying a fair value model. The estimates of fair value of in-place leases include an estimate of carrying costs during the expected lease up periods for the respective leasable area considering current market conditions. In estimating fair value of in-place leases, we consider items such as real estate taxes, insurance, leasing commissions, tenant improvements and other operating expenses to execute similar leases as well as projected rental revenue and carrying costs during the expected lease up period. We amortize the value of in-place leases acquired to

expense over the approximate weighted average remaining term of the leases, adjusted for projected tenant turnover, on a composite basis.

We determine the value of above-market and below-market in-place leases for acquired properties based on the present value (using an interest rate that reflects the risks associated with the leases acquired) of the difference between (1) the contractual amounts to be paid pursuant to the in-place leases and (2) estimates of current market lease rates for the corresponding in-place leases, measured over a period equal to (i) the remaining non-cancellable lease term for above-market leases, or (ii) the remaining non-cancellable lease term plus any fixed rate renewal options for below-market leases. We record the fair value of above-market and below-market leases as intangible assets or liabilities, and amortize them as an adjustment to revenue over the lease term. Due

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

to the heavily negotiated terms of data center leases and their relative shorter-term maturity, the value of above-market or below-market in-place leases generally does not represent a significant portion of the fair value of the related real estate acquired.

We determine the value of other contractual rights based on our evaluation of the specific characteristics of the underlying contracts and by applying a fair value model to the projected cash flows or usage rights that considers the timing and risks associated with the cash flows or usage. We amortize the value of finite contractual rights over the remaining contract period. Indefinite-lived contractual rights are not amortized but are evaluated for impairment at least annually.

We determine the fair value of assumed debt by calculating the net present value of the scheduled debt service payments using current market-based terms for interest rates for debt with similar terms that management believes we could obtain and remaining maturities. Any difference between the fair value and stated value of the assumed debt is recorded as a discount or premium and amortized over the remaining life of the loan.

Cash and Cash Equivalents and Restricted Cash

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 of three months or less. Restricted cash includes cash equivalents held in our name to collateralize standby letters of credit or its use is restricted by contract or regulation.

Equity Investment

Our equity investment, which does not qualify for equity method accounting, is classified as “available for sale” and is carried at fair value. Effective beginning January 1, 2018, changes in the fair value are reported as a component of net income (loss). Prior to January 1, 2018, such changes in fair value were reported as a component of comprehensive income (loss). See “Recently Adopted Accounting Pronouncements” section below. Dividends paid from operating profits are reported as a component of net income (loss), while other dividends are reported as a return of capital.

Rent and Other Receivables

Receivables consist principally of trade receivables from customers with expected credit losses recorded as an allowance for doubtful accounts. The allowance for doubtful accounts is estimated based upon historic patterns of credit losses for aged receivables as well as specific provisions for certain identifiable, potentially uncollectible balances.

Deferred Leasing and Other Contract Costs

Deferred leasing costs include leasing commissions to third party brokers, incremental commissions to employees and external and internal legal costs, which are capitalized and amortized over the term of the customer lease. Deferred leasing costs are presented in other assets and amortization of deferred leasing costs is presented in depreciation and amortization expense. If a lease terminates prior to the expiration of the lease, the remaining unamortized cost is written off to amortization expense. Incremental commission costs paid in obtaining managed service contracts are amortized based on the transfer of goods or services to which the costs relate. The amortization expense is recognized over the contract term.

Deferred Financing Costs

Deferred financing costs include legal and bank issuance costs incurred in connection with issuance of debt, including costs associated with the issuance of our credit facility, and are presented as a direct reduction from the carrying amount of debt. These financing costs are deferred and amortized to expense over the term of the debt and are included as a component of interest expense. When debt is paid prior to its scheduled maturity date, or the underlying terms are materially modified, the remaining carrying value of deferred finance costs, along with certain other

payments to lenders, is included in loss on early extinguishment of debt.

Deferred Revenue and Prepaid Rents

Deferred revenue is recorded when a customer makes a contractual payment in excess of revenues recognized in accordance with GAAP. Prepaid rent liability is recorded when a customer makes an advance payment or they are contractually obligated to pay any amounts in advance of the associated lease or service period.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

Revenue Recognition

We adopted the new revenue recognition standard effective January 1, 2018. The information in this section describes our current revenue recognition policies. See the section below “Recently Adopted Accounting Pronouncements” for additional information related to the adoption.

Our revenue primarily consists of colocation lease revenue, metered power reimbursements, managed services, equipment sales, and other services. We generally are not entitled to reimbursements for real estate taxes, insurance or other operating expenses. The colocation lease revenue and metered power reimbursements are recognized under the lease accounting standard and managed services, equipment sales, installations, and other services are recognized under the revenue accounting standard. Payment terms generally range from 30 to 120 days. An allowance for doubtful accounts is recognized when the collection of contractual rent, straight-line rent or customer reimbursements is deemed to be unlikely.

Colocation Lease Revenue and Metered Power Reimbursements

Colocation lease revenues are generally billed monthly in advance based on the leased space or contracted power. Some contracts have an initial free rent period or payments that escalate over the term of the contract. If rents escalate without the lessee gaining access to or control over additional leased space or power, at the beginning of the lease term, the rental payments 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 and 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 as a straight-line receivable, which is included in other assets in our consolidated balance sheet. When a customer makes an advance payment or they are contractually obligated to pay amounts in advance of the associated lease period, a prepaid rent liability is recorded. When a customer makes a contractual payment in excess of revenues recognized in accordance with GAAP, a deferred revenue liability is recorded. This deferred revenue liability is generally recognized on a straight-line basis over the expected term of the lease, unless the pattern of service suggests otherwise.

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. The revenue for these types of leases is recorded in colocation lease revenue. Other leases provide that the customer will be separately billed for power based upon actual, metered usage. Some leases that include billing for metered power include an administrative fee that is charged to the customer. Metered power reimbursement revenue is generally billed one month in arrears, and an estimate of this revenue is accrued in the month that the associated power is provided.

Managed Services

Managed services include the provisioning of a full-service managed data center, monitoring customer computer equipment, managing backups and storage, utilization reporting and other related ancillary information technology services. Management service contracts generally range from one to five years. Revenue is measured based on the consideration specified in the contract and recognized over time as we satisfy the performance obligation.

Equipment sales

Equipment sold by us generally consists of servers, switches, networking equipment, cable infrastructure, and cabinets. Revenue is recognized at a point-in-time when control of the equipment transfers to the customer from the Company, which is deemed to take place upon delivery to the customer.

Other services

Other services are generally one-time services and include installation of customer equipment, performing customer system re-boots, server cabinet and cage management, power monitoring, shipping and receiving, resolving technical issues, and other non-recurring hands-on service requested by the customer. Installation services include mounting, wiring, and testing of customer owned equipment. The installation period is typically short term in nature, and accordingly, revenue from the installation of customer equipment will be recognized at a point-in-time once the installation is complete and the performance obligation is satisfied. Revenue from other services is recognized over time as the Company performs the service as the customer is determined to consume the benefits of the service as the Company performs.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

As allowed under GAAP, we have adopted the practical expedient that allows us not to disclose information about remaining performance obligations that have original expected durations of one year or less, the amount of the transaction price allocated to the remaining performance obligations and when we expect to recognize that amount as revenue for the year. We have also adopted the "as invoiced" practical expedient, whereby the Company recognizes revenue in the amount that directly corresponds to the amount of value transferred to the customer.

Transaction, Acquisition, Integration and Other Related Expenses

Transaction expenses represent incremental legal, accounting and professional fees incurred in connection with business combinations and the non-recurring, incremental expenses incurred after a business combination or asset acquisition. These expenditures are expensed as incurred and do not include any recurring costs from our ongoing operations.

Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended ("the Code") and have qualified as a REIT since the year ended December 31, 2013. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we distribute at least 90% of our "REIT taxable income", as defined by the Code, to our stockholders. As a REIT, we generally will not be subject to federal income tax at the corporate level, however, we are still subject to foreign, state and local income taxes in the locations in which we conduct business. We intend to operate in such a manner as to continue to qualify as a REIT, but no assurance can be given that we will operate in a manner so as to remain qualified as a REIT. If we fail to qualify as a REIT in any taxable year, we would be subject to federal income tax on our taxable income at regular corporate tax rates. As of September 30, 2018, we believe we are in compliance with all applicable REIT requirements. Since the year ended December 31, 2013, we have conducted certain non-REIT activities through taxable REIT subsidiaries (each, a "TRS"). Income recognized by our TRSs is subject to applicable federal, foreign, state, and local income and margin taxes. We have no significant taxes associated with our TRSs for the periods ended September 30, 2018 or 2017.

Deferred Income Taxes

Deferred income taxes represent the tax effect of temporary differences between the book and tax basis of assets and liabilities. As of September 31, 2018, we have a \$68.7 million deferred tax liability, included in the Consolidated Balance Sheet for foreign income taxes associated with the Zenium acquisition. See Note 4. Investment in Real Estate for further discussion. As of December 31, 2017, we had no deferred tax liability.

We recognize the financial statement benefit of an uncertain tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. As of September 30, 2018, we had no significant uncertain tax positions.

Foreign Currency Translation and Transactions

Gains or losses from translation of foreign operations where the local currency is the functional currency are included as components of other comprehensive income (loss). The financial position of foreign subsidiaries is translated at the exchange rates in effect at the end of the period, while revenues and expenses are translated at average exchange rates during the period. Gains or losses from foreign currency transactions are included in determining net income.

Stock-Based Compensation Expense

We have a stock-based incentive award plan for our employees and directors. Stock-based compensation expense associated with these awards is recognized in general and administrative expenses in our consolidated statements of operations. We measure stock-based compensation at the estimated fair value on the grant date and recognize the amortization of stock-based compensation expense over the requisite service period. Fair value is determined based on assumptions related to volatility, interest rates and our market and company performance.

Income (Loss) Per Share

Basic earnings per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period excluding any unvested securities or unexercised options. Diluted earnings per share is calculated by adjusting basic earnings per share for the dilutive effect of the assumed exercise of securities and options, including the effect of shares issuable under our stock-based incentive plans. Our unvested share-based awards are considered participating securities and are reflected in the calculation of diluted earnings per share. During periods of net loss, the assumed exercise of securities and options

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

is anti-dilutive and is not included in the calculation of earnings per share. For the three months ended September 30, 2018 and for the three and nine months ended September 30, 2017, any common stock equivalents were anti-dilutive.

Business Segments

Our data centers have similar economic characteristics and customers across all geographic locations, and our service offerings and delivery of services are provided in a similar manner, using the same types of facilities and similar technologies. Our chief operating decision maker, the Company's Chief Executive Officer, reviews our financial information on an aggregate basis. As a result, we have concluded that we have one reportable business segment. One customer, a Fortune 500 company, represented approximately 19% and 18% of our revenue for the nine months ended September 30, 2018 and 2017, respectively.

Revenue from properties were \$206.6 million and \$175.3 million for the three months ended September 30, 2018 and 2017, respectively. Revenues from properties were \$600.1 million and \$491.5 million for the nine months ended September 30, 2018 and 2017, respectively. We had net investment in real estate of \$4.1 billion and \$3.1 billion, at September 30, 2018 and December 31, 2017, respectively. Revenue from non-U.S. properties was not material for the three and nine months ended September 30, 2018.

Use of Estimates

Preparation of the condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates and assumptions are based on management's knowledge of current events and actions that we may undertake in the future. Significant estimates include and are related to determining lease terms and revenue recognition, the fair value for purchase price allocations for business combinations and asset acquisitions, and the useful lives of real estate and other long-lived assets. Actual results may differ from these estimates and assumptions.

Reclassifications

Certain financial information has been revised to conform to the current year presentation due to changes in the significance of the particular activity. The following items have been reclassified:

Balance Sheet as of December 31, 2017

• Land related to construction in progress (\$8.7 million) and land held for future development (\$63.8 million) were previously included in investment in real estate - land (\$72.5 million).

• Notes receivable and long-term installment contracts are classified within other assets. These items were previously included in rent and other receivables (\$3.3 million).

• Construction costs payable are classified in a separate liability and were previously included in accounts payable and accrued expenses (\$115.5 million).

• Dividends payable are classified in a separate liability and were previously included in accounts payable and accrued expenses (\$41.8 million).

• Lease finance arrangements are classified in capital lease obligations and lease financing arrangements. These items were previously included in a separate line for lease finance arrangements (\$131.9 million).

• Equity investment is classified in a separate asset account and was previously included in other assets (\$175.6 million).

Statement of Cash Flows for the period ended September 30, 2017

The cash flow effect of the change in interest accrual is classified within accounts payable and accrued expenses.

• These items were previously combined with non-cash interest expense, net in the comparable prior year period (\$1.3 million).

Debt issuance and debt extinguishment costs are classified within proceeds from debt, net. These items were previously included in separate lines, debt issuance costs (\$13.6 million) and payment of debt extinguishment costs (\$30.4 million), in the comparable prior year period.

Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted the Financial Accounting Standards Board ("FASB") pronouncement ASU 2014-09 with respect to revenue recognition. The revised guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and superseded prior revenue recognition guidance, including industry-specific revenue guidance. The revised guidance replaced most existing revenue and real estate sale recognition guidance in GAAP. The standard specifically excludes lease contracts, which is our primary recurring revenue source; however, our revenue accounting for managed

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

services and sales of real estate and equipment will follow the revised guidance. We adopted the new standard using the modified retrospective transition method, where financial statement presentations prior to the date of adoption are not adjusted. Transactions that were not closed as of the adoption date were adjusted to reflect the new standard and we recorded an adjustment to beginning retained earnings of \$0.3 million. See Note 3 "Revenue Recognition" for further information regarding the adoption of the new accounting standard, including expanded quantitative and qualitative disclosures regarding revenue recognition.

On January 1, 2018, we adopted ASU 2017-05, which requires the derecognition of a business in accordance with ASC 810, Consolidations, including instances in which the business is considered in substance real estate. In cases where a controlling interest in real estate was sold but a noncontrolling interest is retained, we may record a gain or loss related to both the sold and retained interests. The adoption of this standard did not have an impact on our condensed consolidated financial statements, but depending on future transactions, may in the future.

On January 1, 2018, we adopted ASU 2016-01 related to equity investments. Equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) are to be measured at fair value with changes in fair value now recognized in net income. Previously changes in fair value for available for sale equity investments were recorded in other comprehensive income (loss). The adoption of the new standard was made through a cumulative-effect adjustment to beginning retained earnings of \$75.6 million. Prior financial statement amounts were not adjusted. For the three months ended September 30, 2018, the unrealized loss on investment was \$36.6 million. For the nine months ended September 30, 2018, the unrealized gain on investment was \$106.6 million.

New Accounting Pronouncements

In August 2018, the SEC issued Securities Act Release No. 33-10532, Disclosure Update and Simplification, which amends certain of its disclosure requirements and is intended to facilitate the disclosure of information to investors and simplify compliance without significantly altering the total mix of information provided to investors. The amendments will become effective on November 5, 2018. Among the amendments is the requirement to present the changes in shareholders' equity in the interim financial statements (either in a separate statement or footnote) in quarterly reports on Form 10-Q. Based on the effective date of the amendments and Exchange Act Forms Compliance and Disclosure Interpretation Question 105.09 issued by the staff of the SEC's Division of Corporation Finance on September 25, 2018 and updated on October 4, 2018, the Company's first presentation of changes in shareholders' equity will be in its Form 10-Q for the quarter ending March 31, 2019.

In August 2018, the FASB issued ASU 2018-15, which clarifies the accounting for implementation costs incurred in a hosting arrangement that is a service contract. Capitalization of these implementation costs are accounted for under the same guidance as implementation costs incurred to develop or obtain internal-use software and recorded as a prepaid asset. These capitalized costs are to be expensed ratably over the hosting arrangement term as operating expense, along with the service fees. The guidance is effective for periods beginning after December 15, 2019. Early adoption is allowed. The Company does not plan to early adopt this guidance and is evaluating the impact of the new standard.

In August 2018, the FASB issued ASU 2018-13, which changes the fair value measurement disclosure requirements of ASC 820. Under this ASU, key provisions include new, eliminated and modified disclosure requirements. The guidance is effective for periods beginning after December 15, 2019. Early adoption is allowed. The Company does not plan to early adopt this guidance and is evaluating the impact of the new standard.

In June 2018, the FASB issued ASU 2018-07, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under this ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The Company accounts for its share-based payments to our board of director members in the same manner as employees. Other than to our board of director members, the Company does not award share-based payments to any other nonemployees. Therefore, we do not expect this accounting pronouncement to significantly impact our financial statements. The guidance is effective for periods beginning after December 15, 2018. Early adoption is allowed.

In February 2016, the FASB issued ASU 2016-02, regarding the accounting for leases for both lessees and lessors. In July 2018, ASU 2016-02 was amended, providing another transition method by allowing companies to initially apply the new lease standard in the year of adoption and not the earliest comparative period. The lease standard amendment also provided a practical expedient for an accounting policy election for lessors, by class of underlying asset, to not separate nonlease components from the associated lease components as long as the timing and pattern of transfer are the same for the nonlease and lease components.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

Lessees will recognize a right-of-use asset and a lease liability for leases (other than leases that meet the definition of a short-term lease). The liability will be equal to the present value of lease payments adjusted for any initial direct costs of the lease, lease incentives or early lease payments. For income statement purposes, the FASB retained a dual classification model, requiring lessees to classify leases as either operating or finance. Operating leases will result in straight-line rent expense (similar to current operating leases) while finance leases will result in interest and amortization expense (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting. The new standard may be adopted using a modified retrospective transition and provides for certain practical expedients. We are evaluating the impact of ASU 2016-02 on our consolidated financial statements, where we believe the primary impact as a lessee will relate to leases where we are deemed to be the accounting owner of leasehold improvements.

The accounting for lessors will remain largely unchanged from current GAAP; however, the new lease standard requires that lessors expense, on an as-incurred basis, certain initial direct costs that are not incremental in negotiating a lease. Under existing standards, these costs are capitalizable and therefore the new lease standard will result in certain of these costs being expensed as incurred after adoption. During the nine months ended September 30, 2018 and 2017, we capitalized \$1.1 million and \$0.6 million, respectively, of internal costs related to our leasing activities. Further under current lessor accounting, a real estate lease could only be a sales-type lease if ownership of the real estate was transferred to the lessee. With the adoption of ASU 2016-02, there will no longer be an exclusion for real estate leases, where the same classification guidance applies to all leases. If, as lessor, our real estate leases would be classified as sales-type leases, the real estate asset would be eliminated, a net investment asset would be recognized generally equal to the present value of the minimum lease payments plus the unguaranteed residual value and a selling profit or loss recorded. We are currently evaluating how this guidance will apply to our leases, including sales-type, direct financing and operating classifications.

In light of the recently issued lease standard amendment and the new practical expedients, we continue to evaluate the impact of the new leasing standard. We plan to adopt the new standard January 1, 2019.

In January 2018, the FASB issued ASU 2018-01, which permits an entity to elect a practical expedient to not evaluate land easements that were not previously accounted for as leases prior to the entity's adoption of the new lease accounting standard. Once the new lease standard is adopted, it should be applied prospectively to all new or modified land easements. The Company expects to adopt this new guidance effective January 1, 2019, along with the new lease standard, and will continue to evaluate the impact of this new guidance until it becomes effective.

In June 2016, the FASB issued ASU 2016-13 providing guidance which requires certain financial assets to be presented at the net amount expected to be collected. The guidance affects entities holding financial assets and net investment in leases that are not accounted for at fair value through net income. The guidance will apply to our trade receivables, notes receivable, net investments in leases and any other future financial assets that have the contractual right to receive cash that we may acquire in the future. The guidance is effective for periods beginning for us January 1, 2020. Early adoption is permitted. We are currently evaluating the impact of the new standard.

3. Revenue Recognition

We have consistently applied our revenue accounting policies to all periods presented in these consolidated financial statements except for customer equipment installation services. Beginning with our adoption of revenue recognition in ASU 2014-09 on January 1, 2018 (see Note 2, "Revenue Recognition" and "Recently Adopted Accounting Pronouncements"), revenue from the installation of customer equipment is recognized at a point-in-time as the

Company performs the service. The asset being enhanced or installed belongs to the customer, and the benefits of the installation service are being consumed at the completion of the service. Prior to the adoption of the new revenue recognition standard, the revenue from these transactions was deferred over the contract term. The deferred revenue liability balance related to completed installations, less any associated deferred costs, as of the date of adoption, calculated on a cumulative modified retrospective basis was \$0.3 million and has been included in the cumulative effective adjustment to opening retained earnings.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

Disaggregation of Revenue

For the three and nine months ended September 30, 2018, revenue disaggregated by primary revenue stream is as follows (in millions).

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Other revenues from customers		
Managed services	\$ 3.3	\$ 9.7
Equipment sales	3.6	8.7
Other services	1.2	6.3
Total other revenues from customers	8.1	24.7
Colocation lease revenue	169.5	500.5
Metered power reimbursements	29.0	74.9
Revenue	\$ 206.6	\$ 600.1

Total other revenues from customers generated from operations outside of the United States were insignificant for the three and nine months ended September 30, 2018.

The balances and activities related to revenues from customers for accounts receivable, contract assets and contract liabilities are not material at September 30, 2018.

4. Investment in Real Estate

Acquisitions of Data Centers

On August 24, 2018, the Company completed its previously announced acquisition of Zenium Topco Ltd. and certain other affiliated entities ("Zenium"). Zenium is a hyperscale data center provider in Europe with four operating data centers in London and Frankfurt, and land sites available for development in London and Frankfurt. In connection with the acquisition, and after giving effect to a post-closing working capital adjustment, the Company paid aggregate cash consideration of \$461.8 million, net of approximately \$12.7 million of cash acquired, and assumed outside indebtedness of approximately \$86.3 million. The Company has also accrued approximately \$1.0 million related to the post-closing working capital adjustment, that is expected to be paid in the quarter ended December 31, 2018. The Company financed the acquisition with proceeds from the \$300.0 million delayed draw term loan included in the 2023 Term Loan (as defined below) and \$174.5 million of borrowings under the \$1.7 Billion Revolving Credit Facility (as defined below). As a result of the acquisition, the Company recognized a \$69.2 million deferred tax liability associated with temporary differences between the book basis of the assets acquired in the transaction.

The Company evaluated the acquisition and determined that substantially all of the fair value of the gross assets was concentrated in a group of similar identifiable assets and accounted for the transaction as an acquisition of assets.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

The consolidated financial statements of CyrusOne Inc. include the operating results of Zenium since the acquisition date, which was August 24, 2018. The following table summarizes the estimated fair values of all assets acquired at the date of acquisition:

IN MILLIONS

Investment in real estate	\$595.4
Cash and cash equivalents	12.7
Rent and other receivables	9.0
Intangible assets:	
Trade name	1.8
Leasehold interest	1.6
In-place leases	60.9
Other assets	1.1
Accounts payable	(24.2)
Deferred revenue	(3.3)
Capital lease obligations	(25.0)
Deferred tax liability	(69.2)
Debt	(86.3)
Net assets acquired attributable to CyrusOne Inc.	474.5
Cash acquired	(12.7)
Net cash paid at acquisition	\$461.8

On February 28, 2017, the Company acquired two data centers located in Raleigh-Durham, North Carolina and Somerset, New Jersey which was accounted for as an asset acquisition. The Company's aggregate cash consideration paid totaled approximately \$492.3 million, including related acquisition and closing costs. The two properties consist of approximately 160,000 colocation square feet and approximately 21 megawatts of power capacity.

The following table summarizes the estimated fair values of all assets acquired at the date of acquisition:

IN MILLIONS

Investment in real estate	\$420.3
Cash and cash equivalents	3.2
Intangible assets:	
Above/Below market leases	2.3
In-place leases	75.8
Other assets	2.4
Payables	(5.4)
Deferred revenue	(0.9)
Capital lease obligation	(2.2)
Net assets acquired attributable to CyrusOne Inc.	495.5
Cash acquired	(3.2)
Net cash paid at acquisition	\$492.3

Land for future development

During the three months ended September 30, 2018, the Company purchased approximately 99 acres of land for \$139.9 million, and the Company purchased approximately 66 acres of land for \$13.0 million during the three months ended September 30, 2017.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

During the nine months ended September 30, 2018, the Company purchased approximately 167 acres of land for \$159.6 million, and the Company purchased approximately 209 acres of land for \$35.3 million during the nine months ended September 30, 2017.

Real Estate Investments and Intangibles and Related Depreciation and Amortization

As of September 30, 2018 and December 31, 2017, major components of our real estate investments and intangibles and related accumulated depreciation and amortization are as follows (in millions):

	September 30, 2018					December 31, 2017				
	Investment in Real Estate		Intangibles			Investment in Real Estate		Intangibles		
	Buildings and Improvements	Equipment	Customer Relationships	In Place Leases	Other Contractual	Buildings and Improvements	Equipment	Customer Relationships	In Place Leases	Other Contractual
Cost	\$1,587.3	\$2,452.5	\$247.1	\$136.7	\$19.5	\$1,371.4	\$1,813.9	\$247.1	\$75.9	\$16.1
Less: accumulated depreciation and amortization	(461.4)	(512.0)	(134.2)	(13.4)	(7.3)	(418.2)	(364.2)	(123.0)	(7.1)	(6.0)
Net	\$1,125.9	\$1,940.5	\$112.9	\$123.3	\$12.2	\$953.2	\$1,449.7	\$124.1	\$68.8	\$10.1

As of September 30, 2018 and December 31, 2017, construction in progress includes \$28.8 million and \$8.7 million of land which is under active development, respectively.

Depreciation expense was \$74.9 million and \$210.0 million for the three and nine months ended September 30, 2018, respectively, and \$60.1 million and \$164.3 million for the three and nine months ended September 30, 2017, respectively.

Other contractual intangibles include trademark/tradename, favorable leasehold interests and above/below market leases. Amortization expense was \$9.1 million and \$26.2 million for the three and nine months ended September 30, 2018, respectively, and \$8.6 million and \$23.8 million for the three and nine months ended September 30, 2017.

5. Equity Investment

As of September 30, 2018 and December 31, 2017, our only equity investment represents a marketable equity investment in newly issued unregistered, ordinary shares equivalent to the American depository shares of GDS Holdings Limited ("GDS"), a developer and operator of high-performance, large-scale data centers in China. For the three months ended September 30, 2018, the unrealized loss on investment was \$36.6 million. For the nine months ended September 30, 2018, the unrealized gain on investment was \$106.6 million.

6. Other Assets

As of September 30, 2018 and December 31, 2017, the components of other assets are as follows (in millions):

	September 30, 2018	December 31, 2017
Straight line receivables, net	\$120.1	\$100.0
Deferred leasing and other contract costs	40.9	33.7
Prepaid expenses	26.3	20.0

Edgar Filing: CyrusOne Inc. - Form 10-Q

Non-real estate assets, net	15.6	16.7
Other	19.2	10.5
Total	\$ 222.1	\$ 180.9

Non-real estate assets primarily include administrative related equipment and office leasehold improvements, depreciated or amortized over the shorter of the assets useful life or the related lease term.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

7. Debt

As of September 30, 2018 and December 31, 2017, the components of debt are as follows (unless otherwise noted, interest rate and maturity date information are as of September 30, 2018) (in millions):

	September 30, 2018	December 31, 2017	Interest Rate ^(a)	Maturity Date
\$3.0 Billion Credit Facility:				
\$1.7 Billion Revolving Credit Facility	\$—	\$—	Monthly LIBOR + 1.45%	March 2022 ^(b)
2023 Term Loan	1,000.0	—	Monthly LIBOR + 1.40%	March 2023
2025 Term Loan	300.0	—	Monthly LIBOR + 1.70%	March 2025
\$2.0 Billion Credit Facility:				
\$1.1 Billion Revolving Credit Facility	—	—	Monthly LIBOR + 1.55%	N/A
2021 Term Loan	—	250.0	Monthly LIBOR + 1.50%	N/A
2022 Term Loan	—	650.0	Monthly LIBOR + 1.50%	N/A
2024 Notes, including bond premium of \$5.9 million	705.9	706.8	5.000 %	March 2024
2027 Notes, including bond premium of \$9.4 million	509.4	510.5	5.375 %	March 2027
EUR construction facility	95.6	—	EURIBOR + 3.25%	June 2023
Deferred financing costs	(34.7)	(27.9)	—	—
Total	\$2,576.2	\$2,089.4		

(a) - Monthly LIBOR at September 30, 2018 was 2.25%.

(b) - The Company may exercise a one-year extension option, subject to certain conditions.

On March 29, 2018, the Company entered into a new \$3.0 billion unsecured credit facility. The new credit facility consists of a \$1.7 billion revolving credit facility ("1.7 Billion Revolving Credit Facility"), which includes a \$750 million multicurrency borrowing sublimit, a 5-year term loan with commitments totaling \$1.0 billion ("2023 Term Loan") and a \$300.0 million 7-year term loan ("2025 Term Loan") (collectively, the "\$3.0 Billion Credit Facility"). We borrowed \$700.0 million under the 2023 Term Loan on March 31, 2018, and the 2023 Term Loan includes a delayed draw feature which allows the Company to draw \$300.0 million in up to three tranches over a six-month period in multiple currencies. The Company exercised the draw as a part of the Zenium acquisition. The \$1.7 Billion Revolving Credit Facility has the option to borrow in non-USD currencies and includes a one-year option which, if exercised by the Company, would extend the final maturity to March 2023. The \$3.0 Billion Credit Facility also includes an accordion feature providing for an aggregate increase in the revolving and term components to \$4.0

billion, subject to certain conditions. The \$1.7 Billion Revolving Credit Facility, and the 2023 and 2025 Term Loans, are prepayable at our option.

On March 29, 2018, borrowings of \$1.0 billion under the \$3.0 Billion Credit Facility were used to fully retire a previous \$2.0 billion credit facility. The previous \$2.0 billion credit facility consisted of a \$1.1 billion senior unsecured revolving credit facility ("1.1 Billion Revolving Credit Facility"), a \$250 million 5-year term ("2021 Term Loan") and a \$650 million 7-year term loan ("2022 Term Loan") (collectively, the "\$2.0 Billion Credit Facility"). The aggregate outstanding principal balance of the \$2.0 Billion Credit Facility at the date of the prepayment was \$900.0 million and we recognized a loss on early extinguishment of debt of \$3.1 million.

In August 2018, the Company financed the acquisition of Zenium with proceeds from its \$300.0 million delayed draw term loan included in the 2023 Term Loan and \$174.5 million of borrowings under the \$1.7 Billion Revolving Credit Facility. In connection with the acquisition, the Company assumed a six-year, €100.0 million construction facility. The construction facility is to be repaid in quarterly installments beginning June 30, 2019 and ending June 30, 2023. The construction facility has an accordion feature which can be exercised a maximum of three times, ranging in amounts from €5.0 million to €31.5 million. The construction facility is used to finance the construction of a data center in Frankfurt.

We pay commitment fees for the unused amount of borrowings on the \$1.7 Billion Revolving Credit Facility and 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. The commitment fees decrease to 0.15% per annum upon 50% or greater utilization. We also paid commitment fees on the \$1.1 Billion Revolving Credit

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

Facility through its retirement in March 2018. Commitment fees were \$1.0 million and \$0.6 million for the three months ended September 30, 2018 and 2017, respectively, and \$2.8 million and \$1.3 million for the nine months ended September 30, 2018 and 2017, respectively.

As of September 30, 2018, additional borrowing capacity under the \$3.0 Billion Credit Facility was approximately \$1.7 billion under the \$1.7 Billion Revolving Credit Facility.

As of September 30, 2018, we had \$7.8 million of outstanding letters of credit issued under our credit facilities. On March 17, 2017, the Operating Partnership and CyrusOne Finance Corp., a single-purpose finance subsidiary, both wholly-owned subsidiaries of the Company (together, the "Note Issuers") completed an offering of \$500.0 million aggregate principal amount of 5.000% senior notes due 2024 ("Original 2024 Notes") and \$300.0 million aggregate principal amount of 5.375% senior notes due 2027 ("Original 2027 Notes") in a private offering. The Company received proceeds of \$791.2 million, net of underwriting costs and other deferred financing costs related to the notes. On November 3, 2017, the Note Issuers completed an offering of \$200.0 million aggregate principal amount of 5.000% senior notes due 2024 ("Additional 2024 Notes") and \$200.0 million aggregate principal amount of 5.375% senior notes due 2027 ("Additional 2027 Notes") in a private offering. The Additional 2024 Notes have terms substantially identical to the Original 2024 Notes and the Additional 2027 Notes have terms substantially identical to the Original 2027 Notes. The Original 2024 Notes and the Additional 2024 Notes form a single class of securities ("2024 Notes"), and the Original 2027 Notes and the Additional 2027 Notes form a single class of securities ("2027 Notes"). The Company received proceeds of \$416.1 million, net of underwriting costs of \$4.4 million. The Original 2024 Notes and the Additional 2024 Notes are referred to as the 2024 Notes and the Original 2027 Notes and the Additional 2027 Notes are referred to as the 2027 Notes. On January 8, 2018, the Issuers completed an exchange offer with respect to the 2024 Notes and the 2027 Notes and all validly tendered 2024 Notes and 2027 Notes were exchanged for notes registered with the SEC.

The 2024 Notes and 2027 Notes are senior unsecured obligations of the Note Issuers, which rank equally in right of payment with all existing and future unsecured senior indebtedness of the Note Issuers. The 2024 Notes and 2027 Notes are effectively subordinated in right of payment to any secured indebtedness of the Note Issuers to the extent of the value of the assets securing such indebtedness. The senior notes are guaranteed on a joint and several basis by the Company, the General Partner and all of CyrusOne LP's existing domestic subsidiaries that guarantee the \$3.0 Billion Credit Facility. Each of CyrusOne LP's restricted subsidiaries (other than any designated excluded subsidiary or receivables entity) that guarantees any other indebtedness of CyrusOne LP or other indebtedness of the guarantors will be required to guarantee the senior notes in the future. Each such guarantee is a senior unsecured obligation of the applicable guarantor, ranking equally with all existing and future unsecured senior indebtedness 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 2024 Notes and 2027 Notes are structurally subordinated to all liabilities (including trade payables) of each subsidiary of CyrusOne LP that does not guarantee the 2024 Notes and 2027 Notes. The 2024 Notes and 2027 Notes may be redeemed at our option prior to their scheduled maturity dates at the prices and premiums and on the terms set forth in the respective indentures governing the notes.

On November 20, 2012, wholly-owned subsidiaries of the Company issued \$525.0 million of 6.375% senior notes due 2022 (the "6.375% Notes"). In March 2017, the Company repurchased all of the 6.375% Notes with an aggregate face value of \$474.8 million, a net carrying value of \$469.0 million, for total consideration of \$515.1 million, including accrued and unpaid interest of \$10.3 million. In connection with the debt prepayment, we recognized a loss on early extinguishment of debt of \$36.2 million.

Our debt agreements contain customary provisions with respect to events of default, affirmative and negative covenants and borrowing conditions. The most restrictive covenants are generally included in the \$3.0 Billion Credit

Agreement. The \$3.0 Billion Credit Agreement requires us to maintain certain financial covenants including the following, in each case on a consolidated basis, a minimum fixed charge ratio, maximum total and secured leverage ratios, a minimum tangible net worth requirement, a maximum secured recourse indebtedness ratio, a minimum unencumbered debt yield ratio and a maximum ratio of unsecured indebtedness to unencumbered asset value. In order to continue to have access to amounts available under the \$3.0 Billion Credit Agreement, the Company must remain in compliance with all of that agreement's covenants. As of September 30, 2018, we believe we are in compliance with all provisions of our debt agreements.

As of September 30, 2018, all of our outstanding debt matures between 2023 and 2027.

8. Capital Lease Obligations and Lease Financing Arrangements

As of September 30, 2018 and December 31, 2017, capital lease obligations and lease financing arrangements are as follows (in millions):

	September 30, 2018	December 31, 2017
Capital lease obligations	\$ 36.9	\$ 10.1
Lease financing arrangements	125.8	131.9
Total	\$ 162.7	\$ 142.0

Capital lease obligations represent financing for five of our data centers. The remaining terms of our capital leases range from 2021 to 2041.

Lease financing arrangements represent leases of real estate in which we are involved in the construction of structural improvements to develop or improve buildings into data centers. The remaining terms of our lease financing arrangements range from 2020 to 2035.

The following table summarizes aggregate minimum principal payments of the capital lease obligations and lease financing arrangements for the five years subsequent to September 30, 2018, and thereafter (in millions):

	Capital Leases	Lease Financing Arrangements
2018	\$ 0.8	\$ 1.8
2019	3.1	7.7
2020	3.3	21.0
2021	3.5	5.7
2022	2.6	6.3
Thereafter	23.6	83.3
Total	\$ 36.9	\$ 125.8

Interest expense on capital lease obligations and lease financing arrangements was \$2.2 million and \$6.7 million for the three and nine months ended September 30, 2018, respectively, and \$2.2 million and \$6.7 million for the three and nine months ended September 30, 2017, respectively.

9. Fair Value of Financial Instruments

Fair value measurements are based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering assumptions in fair value measurements, a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own

assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy) has been established.

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets and liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability that are typically based on an entity's

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions dollars, except per share)

own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The fair value of cash and cash equivalents, rent and other receivables, construction costs payable, dividends payable and accounts payable and accrued expenses approximate their carrying value because of the short-term nature of these financial instruments. The carrying value, exclusive of deferred financing costs, for the revolving credit facilities and the floating rate term loans approximate estimated fair value as of September 30, 2018 and December 31, 2017, due to the floating rate nature of the interest rates and the stability of our credit ratings.

The carrying value and fair value of other financial instruments are as follows (in millions):

	September 30, 2018		December 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
2024 Notes	\$ 705.9	\$ 714.0	\$ 706.8	\$ 728.0
2027 Notes	509.4	512.5	510.5	527.5
Equity investment	282.2	282.2	175.6	175.6

The fair values of our 2024 Notes and 2027 Notes as of September 30, 2018 were based on the quoted market prices for these notes, which is considered Level 1 of the fair value hierarchy. The fair value of the equity investment (\$282.2 million at September 30, 2018) was based on the quoted market price for the stock which is considered Level 1 of the fair value hierarchy.

10. Stockholders' Equity

Capitalization

During the nine months ended September 30, 2018 and 2017, we sold 9.7 million and 8.0 million common shares, respectively, at an average price of \$58.67 and \$52.47, respectively. At September 30, 2018, the Company had approximately 105.8 million common shares outstanding.

Distributions

During the nine months ended September 30, 2018 and 2017, regular dividends were paid to our stockholders of \$1.38 and \$1.26 per common share, respectively. On October 30, 2018, the Company will announce a cash dividend of \$0.46 per common share payable on January 11, 2019, to stockholders of record at the close of business on January 2, 2019.

Stock Plans

The board of directors of CyrusOne Inc. adopted the 2012 Long-Term Incentive Plan ("LTIP"), which was amended and restated on May 2, 2016. The LTIP is administered by the compensation committee of the board of directors. Awards issuable under the LTIP include common stock, restricted stock, restricted stock units, stock options and other incentive awards. CyrusOne Inc. has reserved a total of 8.9 million shares of CyrusOne Inc. common stock for issuance pursuant to the LTIP, which may be adjusted for changes in capitalization and certain corporate transactions. To the extent that an award, if forfeitable, expires, terminates or lapses, or an award is otherwise settled in cash without the delivery of shares of common stock to the participant, then any unpaid shares subject to the award will be available for future grant or issuance under the LTIP. The payment of dividend equivalents in cash in conjunction with any outstanding awards will not be counted against the shares available for issuance under the LTIP. Shares available

under the LTIP at September 30, 2018, were approximately 5.0 million. Awards vest according to each agreement, generally ratably over a three-year period, as long as the employee remains employed with the Company, and with respect to certain awards, based on the outcome of market or performance criteria.

Restricted stock units and restricted stock are issued as either time-based (where the award vests ratably over time and is not subject to future performance targets and, accordingly, is initially recorded at the current market price at the time of grant) or performance-based (where the award is recorded at fair value at the time of grant and vesting of the award, if any, is based on achieving certain financial targets, currently based on shareholder return). The restricted stock units have the right to receive dividend equivalents in cash and holders of restricted stock have the right to receive dividends. The performance-based awards accrue dividends that are payable upon settlement of the award.

Expense for time-based grants is recognized under a straight-line method. For grants with a market condition, which is generally a factor outside of the Company's financial performance, such as a market index, expense is recognized under a graded expense attribution method. For grants based solely on the Company's financial performance, expense is recognized under a graded expense attribution method if it is probable that the performance targets will be achieved. Total stock-based compensation expense for the three and nine months ended September 30, 2018 was \$4.6 million and \$13.0 million, respectively, and for the three and nine months ended September 30, 2017 was \$4.0 million and \$11.6 million, respectively.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

The following tables present the stock plan activity for the nine months ended September 30, 2018 and 2017 for restricted stock units, restricted stock and stock options (performance-based awards are reflected at the target amount of the grant):

Restricted Stock Units ("RSU")

	2018		2017	
	Units	Weighted Average Grant Date Fair Value	Units	Weighted Average Grant Date Fair Value
Outstanding January 1,	265,002	\$ 56.08	—	\$ —
Granted	356,148	53.18	269,055	55.95
Exercised	(88,371)	44.50	—	—
Forfeited	(21,701)	53.56	(3,986)	53.84
Outstanding September 30,	511,078	\$ 56.17	265,069	\$ 56.07
Time-based RSUs outstanding	267,314	\$ 52.45	135,923	\$ 49.27
Performance-based RSUs outstanding	243,764	\$ 60.25	129,146	\$ 63.23

Restricted Stock ("RS")

	2018		2017	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Outstanding January 1,	715,098	\$ 32.21	1,274,713	\$ 28.95
Granted	17,052	51.31	18,179	48.13
Exercised	(238,816)	27.47	(432,424)	26.35
Forfeited	(55,708)	29.16	(131,171)	21.07
Outstanding September 30,	437,626	\$ 35.93	729,297	\$ 32.39
Time-based RSs outstanding	332,868	\$ 38.25	422,180	\$ 37.47
Performance-based RSs outstanding	104,758	\$ 28.54	307,117	\$ 25.40

Stock Options

	2018		2017	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding January 1,	415,459	\$ 31.67	434,268	\$ 31.89
Granted	—	—	—	—
Exercised	(14,236)	23.58	(279)	48.82
Forfeited	—	—	—	—

Edgar Filing: CyrusOne Inc. - Form 10-Q

Outstanding September 30,	401,223	\$ 31.96	433,989	\$ 31.90
Time-based stock options outstanding	348,137	\$ 33.23	366,667	\$ 33.42
Performance-based stock options outstanding	53,086	\$ 23.58	67,322	\$ 23.58

11. Income (Loss) per Share

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

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

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

On September 28, 2018, CyrusOne Inc. completed a public offering of 6.7 million shares of its common stock for \$398.2 million, net of underwriting discounts and expenses of approximately \$17.2 million. In connection with this offering, on September 25, 2018, CyrusOne Inc. entered into a forward sale agreement with Morgan Stanley & Co. LLC with respect to an additional 2.5 million shares of its common stock. The forward sale agreement expires in September 2019. This contract had an immaterial impact on our diluted share count at September 30, 2018.

The following table reflects the computation of basic and diluted net income (loss) per share for the three and nine months ended September 30, 2018 and 2017:

IN MILLIONS, except per share amounts

	Three months ended September 30,				Nine months ended September 30,			
	2018		2017		2018		2017	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
Numerator:								
Net income (loss)	\$(42.4)	\$(42.4)	\$(55.1)	\$(55.1)	\$107.0	\$107.0	\$(86.3)	\$(86.3)
Less: Restricted stock dividends	(0.3)	(0.3)	(0.2)	(0.2)	(0.8)	(0.8)	(0.7)	(0.7)
Net income (loss) available to stockholders	\$(42.7)	\$(42.7)	\$(55.3)	\$(55.3)	\$106.2	\$106.2	\$(87.0)	\$(87.0)
Denominator:								
Weighted average shares outstanding-basic	98.8	98.8	90.4	90.4	97.8	97.8	87.5	87.5
Performance-based restricted stock and units		—		—		0.6		—
Weighted average shares outstanding-diluted		98.8		90.4		98.4		87.5
EPS:								
Net income (loss) per share-basic	\$(0.43)		\$(0.61)		\$1.09		\$(0.99)	
Effect of dilutive shares:								
Net income (loss) per share-diluted	\$(0.43)		\$(0.61)		\$1.08		\$(0.99)	

12. Related Party Transactions

The Company has a strategic partnership with GDS, a developer and operator of high-performance, large-scale data centers in China. In connection with our investment in GDS, the Company entered into an agreement with GDS for the joint marketing of each company's data centers. Also as a part of the agreement, the Company's Chief Executive Officer joined the board of directors of GDS on June 22, 2018.

For the three and nine months ended September 30, 2018, the Company incurred \$0.4 million and \$0.9 million, respectively, of commission and referral charges and accrued expenses payable to GDS. The commission and referral charges were capitalized as deferred leasing costs and will be amortized over the terms of the respective customer leases. No significant referral expense was recognized by the Company in 2018 or 2017. We have not recognized any referral revenue related to the agreement with GDS in 2018 or 2017. See Note 5, "Equity Investment", for additional information related to our GDS investment.

13. Income Taxes

Provided we continue to qualify for taxation as a REIT, we are generally not subject to corporate level federal income tax on the earnings distributed currently to our stockholders. It is our policy and intent, subject to change, to distribute 100% of our taxable income and therefore, except as discussed below, 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.

The activities of our TRSs include performing services for our customers that would otherwise be considered impermissible for REITs. 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 certain of the locations in which we conduct business. Income tax expense was \$0.2 million and \$2.0

25

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

million for the three and nine months ended September 30, 2018, respectively, and \$0.9 million and \$2.0 million for the three and nine months ended September 30, 2017, respectively. As of September 30, 2018, we have a \$68.7 million deferred tax liability, included in the Consolidated Balance Sheet for foreign income taxes associated with the Zenium acquisition. As of December 31, 2017, we had no deferred tax liability.

14. Commitments and Contingencies

We lease certain data center facilities and equipment from third parties. Operating lease expense was \$0.9 million and \$5.0 million for the three and nine months ended September 30, 2018, respectively, and \$2.1 million and \$6.1 million for the three and nine months ended September 30, 2017, respectively. Certain of these leases provide for renewal options with fixed rent escalations beyond the initial lease term.

As of September 30, 2018, future minimum lease payments required under operating leases having initial or remaining non-cancellable lease terms in excess of one year are as follows (in millions):

2018	\$1.3
2019	4.8
2020	4.3
2021	3.1
2022	3.1
Thereafter	43.9
Total	\$60.5

As of September 30, 2018, we had outstanding letters of credit of \$7.8 million as security for obligations under the terms of our lessee agreements.

We have entered into non-cancellable contracted commitments for construction of data center facilities and acquisition of equipment. As of September 30, 2018, these commitments were approximately \$293.2 million and are expected to be incurred over the next one to two years. In addition, we have entered into equipment and utility power contracts, which require minimum purchase commitments for power. These agreements range from one to two years and provide for payments for early termination or require minimum payments for the remaining term. As of September 30, 2018, the minimum commitments for these arrangements were approximately \$53.0 million.

During the normal course of business, the Company and its subsidiaries have made certain indemnities and commitments to customers, vendors and associated parties related to the use, protection and security of intellectual property and claims for negligence or willful misconduct. Further, customer contracts generally require specified levels of performance related to uninterrupted service and cooling temperatures. Also in the normal course of our business, the Company is involved in legal, tax and regulatory proceedings arising from the conduct of our business activities. Management assesses the probability that these performance standards, credits, claims or indemnities have been incurred and liabilities or asset reserves are established for loss contingencies when the losses associated are deemed to be probable and the loss can be reasonably estimated. Based on information currently available, we believe that the outcome of such matters will not, individually or in the aggregate, have a material effect on our consolidated financial statements.

15. Guarantors

The 2024 Notes and 2027 Notes issued by CyrusOne LP (the “LP Co-Issuer”) and CyrusOne Finance Corp. (the “Finance Co-Issuer” and, together with the LP Co-Issuer, the “Co-Issuers”) are fully and unconditionally and jointly and severally guaranteed on a senior unsecured basis. The guarantors include CyrusOne Inc. (the “Parent Guarantor”), the General Partner and certain domestic wholly-owned subsidiaries of the Operating Partnership (together with the General Partner, the “Guarantor Subsidiaries”; the Guarantor Subsidiaries together with the Parent Guarantor, the “Guarantors”). As of September 30, 2018 and 2017, non-guarantors are all of our foreign subsidiaries and certain domestic subsidiaries (collectively, the “Non-Guarantors”). The foreign subsidiaries we acquired upon our acquisition of Zenium are classified as Non-Guarantors.

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

The indentures governing the 2024 Notes and 2027 Notes contain affirmative and negative covenants customarily found in indebtedness of this type, including covenants that 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. 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, subject to certain qualifications set forth in the indenture. Notwithstanding the foregoing, the covenants contained in the indentures do not restrict the Company's ability to pay dividends or distributions to stockholders to the extent (i) no default or event of default exists or is continuing under the indentures 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. Subject to the provisions of the indentures governing the 2024 Notes and 2027 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 indentures,
- 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 indentures, if such Guarantor is no longer a guarantor or other obligor of any other indebtedness of the LP Co-issuer or the Parent Guarantor,
- upon the LP Co-issuer designating such Guarantor as an excluded subsidiary under the terms of the indentures,
- upon the defeasance or discharge of the 2024 Notes or 2027 Notes, as applicable, in accordance with the terms of the indentures, and
- upon the 2024 Notes or 2027 Notes, as applicable, being rated investment grade by at least two rating agencies and no default or event of default shall have occurred and be continuing.

The Parent Guarantor is a REIT whose only material asset is its ownership of operating partnership units of the LP Co-Issuer. The LP Co-Issuer and its subsidiaries hold substantially all the assets of the Company. The LP Co-Issuer conducts the operations of the business, along with its subsidiaries. The Finance Co-Issuer does not have any operations or revenues. The Guarantor Subsidiaries include substantially all of our domestic operations and include approximately 85% of our gross operating real estate. The Non-Guarantors include substantially all of our foreign operations, primarily in the United Kingdom, Germany and Singapore. The Non-Guarantors' assets also include the ownership of our equity investment in GDS of \$282.2 million as of September 30, 2018, which was not an investment as of or for the three and nine months ended September 30, 2017. The equity investment has not made any distributions for the three and nine months ended September 30, 2018, but the Company did recognize an unrealized fair value loss of \$36.6 million and an unrealized fair value gain of \$106.6 million with respect to this investment, which is included in net income for the three and nine months ended September 30, 2018, respectively.

The following schedules present the condensed consolidating balance sheets as of September 30, 2018 and December 31, 2017, and the condensed consolidating statements of operations and comprehensive income (loss) for the three and nine months ended September 30, 2018 and 2017, and the statements of cash flows for the nine months ended September 30, 2018 and 2017, for the Parent Guarantor, General Partner, each Co-Issuer, Guarantor Subsidiaries, and Non-Guarantors. Eliminations and consolidation adjustments primarily relate to the elimination of investments in subsidiaries and equity (loss) earnings related to investments in subsidiaries (in millions).

Edgar Filing: CyrusOne Inc. - Form 10-Q

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

Condensed Consolidating Balance Sheets

	As of September 30, 2018							Total
	Parent Guarantor	General Partner	LP Co-issuer	Financial Co-issuer	Guarantor Subsidiaries	Non-Guarantors	Eliminations/Consolidations	
Total investment in real estate, net	\$—	\$—	\$—	\$—	\$ 3,470.1	\$ 620.0	\$ 29.7	\$ 4,119.8
Cash and cash equivalents	—	—	—	—	44.9	16.1	—	61.0
Investment in subsidiaries	2,236.5	22.4	3,042.4	—	—	—	(5,301.3)) —
Rent and other receivables, net	—	—	—	—	96.3	8.2	—	104.5
Intercompany receivable	22.5	—	1,701.4	—	4.3	—	(1,728.2)) —
Equity investment	—	—	—	—	—	282.2	—	282.2
Goodwill	—	—	—	—	455.1	—	—	455.1
Intangible assets, net	—	—	—	—	184.3	64.1	—	248.4
Other assets	—	—	0.5	—	207.3	14.3	—	222.1
Total assets	\$ 2,259.0	\$ 22.4	\$ 4,744.3	\$ —	\$ 4,462.3	\$ 1,004.9	\$ (6,999.8)	) \$ 5,493.1
Debt, net	\$—	\$—	\$ 2,480.6	\$—	\$—	\$ 95.6	\$—	\$ 2,576.2
Intercompany payable	—	—	22.5	—	1,701.4	4.3	(1,728.2)) —
Capital lease obligations and lease financing arrangements	—	—	—	—	108.3	54.4	—	162.7
Accounts payable and accrued expenses	—	—	4.7	—	81.2	10.9	—	96.8
Construction costs payable	—	—	—	—	153.7	6.8	—	160.5
Dividends payable	49.7	—	—	—	—	—	—	49.7
Deferred revenue and prepaid rents	—	—	—	—	136.4	3.1	—	139.5
Deferred tax liability	—	—	—	—	—	68.7	—	68.7
Total liabilities	49.7	—	2,507.8	—	2,181.0	243.8	(1,728.2)	) 3,254.1
Total stockholders' equity	2,209.3	22.4	2,236.5	—	2,281.3	761.1	(5,271.6)	) 2,239.0
Total liabilities and equity	\$ 2,259.0	\$ 22.4	\$ 4,744.3	\$ —	\$ 4,462.3	\$ 1,004.9	\$ (6,999.8)	) \$ 5,493.1

	As of December 31, 2017							Total
	Parent Guarantor	General Partner	LP Co-issuer	Financial Co-issuer	Guarantor Subsidiaries	Non-Guarantors	Eliminations/Consolidations	
Total investment in real estate, net	\$—	\$—	\$—	\$—	\$ 3,014.9	\$ 25.8	\$ 17.7	\$ 3,058.4
Cash and cash equivalents	—	—	—	—	151.2	0.7	—	151.9
Investment in subsidiaries	1,718.0	17.2	2,190.2	—	—	—	(3,925.4)) —
Rent and other receivables, net	—	—	—	—	84.6	2.6	—	87.2
Intercompany receivable	20.0	—	1,656.4	—	—	—	(1,676.4)) —
Equity investment	—	—	—	—	—	175.6	—	175.6
Goodwill	—	—	—	—	455.1	—	—	455.1
Intangible assets, net	—	—	—	—	203.0	—	—	203.0
Other assets	—	—	0.5	—	177.7	2.7	—	180.9
Total assets	\$ 1,738.0	\$ 17.2	\$ 3,847.1	\$ —	\$ 4,086.5	\$ 207.4	\$ (5,584.1)	) \$ 4,312.1
Debt, net	\$—	\$—	\$ 2,089.4	\$—	\$—	\$—	\$—	\$ 2,089.4
Intercompany payable	—	—	20.0	—	1,656.4	—	(1,676.4)) —
Capital lease obligations and lease financing arrangements	—	—	—	—	110.0	32.0	—	142.0

Edgar Filing: CyrusOne Inc. - Form 10-Q

Accounts payable and accrued expenses	—	—	19.7	—	77.3	0.9	—	97.9
Construction costs payable	—	—	—	—	115.5	—	—	115.5
Dividends payable	41.8	—	—	—	—	—	—	41.8
Deferred revenue and prepaid rents	—	—	—	—	110.8	0.8	—	111.6
Total liabilities	41.8	—	2,129.1	—	2,070.0	33.7	(1,676.4	) 2,598.2
Total stockholders' equity	1,696.2	17.2	1,718.0	—	2,016.5	173.7	(3,907.7	) 1,713.9
Total liabilities and equity	\$1,738.0	\$ 17.2	\$3,847.1	\$	\$ 4,086.5	\$ 207.4	\$ (5,584.1	) \$4,312.1

28

CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (unaudited)

(in millions of dollars, except per share)

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

	Three Months Ended September 30, 2018						Eliminations/ Consolidations	Total
	Parent	General Partner	LP Co-issuer	Finance Co-issuer	Guarantor Subsidiaries	Non- Guarantor		
Revenue	\$ —	\$ —	\$ —	\$ —	\$ 201.8	\$ 4.8	\$ —	—\$206.6
Total operating expenses	—	—	—	—	180.2	6.2	—	186.4
Operating income	—	—	—	—	21.6	(1.4)	—	20.2
Interest expense	—	(29.2)	—	—	—	(0.7)	4.1	(25.8)
Unrealized loss on marketable equity investment	—	—	—	—	—	(36.6)	—	(36.6)
Loss on early extinguishment of debt	—	—	—	—	—	—	—	—
Net income (loss) before income taxes	—	(29.2)	—	—	21.6	(38.7)	4.1	(42.2)
Income tax (benefit) expense	—	—	—	—	(0.7)	0.5	—	(0.2)
Equity earnings (loss) related to investment in subsidiaries	(48.5)	(19.1)	—	—	—	—	—	(67.6)