

CyrusOne Inc.
Form 10-Q
November 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

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

CyrusOne LP
(Exact name of registrant as specified in its charter)
Maryland (CyrusOne Inc.) 46-0691837
Maryland (CyrusOne LP) 46-0982896
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
1649 West Frankford Road, Carrollton, TX 75007

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

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

CyrusOne Inc. Yes " No ý
CyrusOne LP Yes " No ý

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

CyrusOne Inc. Yes No

CyrusOne LP Yes No

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

CyrusOne Inc.

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
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Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

CyrusOne Inc. Yes No

CyrusOne LP Yes No

CyrusOne Inc.

There were 21,991,521 shares of Common Stock outstanding as of November 1, 2013 with a par value of \$0.01 per share.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the quarter ended September 30, 2013 of CyrusOne Inc., a Maryland corporation, and CyrusOne LP, a Maryland limited partnership, of which CyrusOne GP, a Maryland statutory trust of which CyrusOne Inc. is the sole beneficial owner and sole trustee, is the sole general partner. Unless otherwise indicated or unless the context requires otherwise, all references in this report to “we,” “us,” “our,” “our Company” or “the Company” refer to CyrusOne Inc. together with its consolidated subsidiaries, including CyrusOne LP. Unless otherwise indicated or unless the context requires otherwise, all references to “our operating partnership” or “the operating partnership” refer to CyrusOne LP together with its consolidated subsidiaries.

CyrusOne Inc. is a real estate investment trust, or REIT, and the sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner of CyrusOne LP. As of September 30, 2013, CyrusOne Inc. owned approximately 34.2% of the operating partnership units in CyrusOne LP. The remaining approximately 65.8% of the operating partnership units in CyrusOne LP, which is reflected as a noncontrolling interest, is owned by our former parent, Cincinnati Bell Inc. (“CBI”). As the sole beneficial owner and sole trustee of CyrusOne GP, which is the sole general partner of CyrusOne LP, CyrusOne Inc. has the full, exclusive and complete responsibility for the operating partnership's day-to-day management and control.

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

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

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

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

To help investors understand the significant differences between the Company and the operating partnership, this report presents the following separate sections for each of the Company and the operating partnership:

- Condensed consolidated financial statements; and

• Notes to the condensed consolidated financial statements

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

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

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

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PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CyrusOne Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in millions, except share amounts)

	Successor As of September 30, 2013	Predecessor As of December 31, 2012
Assets		
Investment in real estate:		
Land	\$81.5	\$44.5
Buildings and improvements	778.2	722.5
Equipment	134.3	52.4
Construction in progress	63.2	64.2
Subtotal	1,057.2	883.6
Accumulated depreciation	(218.6	) (176.7
Net investment in real estate	838.6	706.9
Cash and cash equivalents	213.2	16.5
Rent and other receivables, net of allowance for doubtful accounts of \$0.5 and \$0.3 as of September 30, 2013, and December 31, 2012, respectively	33.9	33.2
Restricted cash	—	6.3
Goodwill	276.2	276.2
Intangible assets, net of accumulated amortization of \$50.9 and \$38.2 as of September 30, 2013, and December 31, 2012, respectively	89.9	102.6
Due from affiliates	0.9	2.2
Other assets	67.2	67.0
Total assets	\$1,519.9	\$1,210.9
Liabilities and equity		
Accounts payable and accrued expenses	\$67.8	\$37.1
Deferred revenue	55.1	52.8
Due to affiliates	7.0	2.9
Capital lease obligations	18.8	32.2
Long-term debt	525.0	525.0
Other financing arrangements	55.8	60.8
Total liabilities	729.5	710.8
Commitments and contingencies		
Equity		
Preferred stock, \$.01 par value, 100,000,000 authorized; no shares issued or outstanding	—	—
Common stock, \$.01 par value, 500,000,000 shares authorized and 22,116,172 shares issued and outstanding at September 30, 2013	0.2	—
Common stock, \$.01 par value, 1,000 shares authorized and 100 shares issued and outstanding at December 31, 2012	—	—
Additional paid in capital	339.4	7.1
Accumulated deficit	(14.2) —
Partnership capital	—	493.0
Total shareholders' equity/Parent's net investments	325.4	500.1
Noncontrolling interest	465.0	—

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Total equity	790.4	500.1
Total liabilities and equity	\$1,519.9	\$1,210.9

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

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CyrusOne Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in millions, except per share data)

	Successor Three Months Ended September 30, 2013	Predecessor Three Months Ended September 30, 2012	Successor January 24, 2013 to September 30, 2013	Predecessor January 1, 2013 to January 23, 2013	Predecessor Nine Months Ended September 30, 2012
Revenue	\$67.5	\$56.7	\$176.1	\$15.1	\$162.8
Costs and expenses:					
Property operating expenses	24.2	20.0	64.1	4.8	55.3
Sales and marketing	2.3	2.1	7.3	0.7	5.8
General and administrative	7.2	5.3	19.7	1.5	15.4
Transaction-related compensation	—	—	—	20.0	—
Depreciation and amortization	23.9	18.8	63.3	5.3	52.9
Restructuring charges	0.7	—	0.7	—	—
Transaction costs	0.7	0.6	1.1	0.1	1.3
Management fees charged by CBI	—	0.9	—	—	2.1
Loss on sale of receivables to an affiliate	—	1.3	—	—	3.7
Asset impairments	—	—	—	—	13.3
Total costs and expenses	59.0	49.0	156.2	32.4	149.8
Operating income (loss)	8.5	7.7	19.9	(17.3)	13.0
Interest expense	10.5	11.3	29.7	2.5	31.2
Other income	(0.1)	) —	(0.1)) —	—
Loss on extinguishment of debt	—	—	1.3	—	—
Net loss before income taxes	(1.9)	) (3.6)	(11.0)	) (19.8)	) (18.2)
Income tax (expense) benefit	(0.3)	) 0.7	(0.8)	) (0.4)	) 4.7
Loss from continuing operations	(2.2)	) (2.9)	(11.8)	) (20.2)	) (13.5)
Gain on sale of real estate improvements	—	0.1	—	—	0.1
Net loss	(2.2)	) \$(2.8)	(11.8)	) \$(20.2)	) \$(13.4)
Noncontrolling interest in net loss	1.4		7.8		
Net loss attributed to common shareholders	\$(0.8)	)	\$(4.0))	
Basic weighted average common shares outstanding	20.9		20.9		
Diluted weighted average common shares outstanding	20.9		20.9		
Loss per share - basic and diluted	\$(0.05)	)	\$(0.22))	
Dividend declared per share	\$0.16		\$0.48		

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

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CyrusOne Inc.

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(unaudited and in millions)

	Common Stock Issued Shares	Amount	Additional Paid In Capital	Accumulated Deficit	Partnership capital	Total Shareholder's Equity/ Parent's Net Investment	Non Controlling Interest	Total Equity
Balance December 31, 2012	—	\$—	\$ 7.1	\$ —	\$ 493.0	\$ 500.1	\$ —	\$500.1
Net loss – January 1, 2013 to January 23, 2013	—	—	—	—	(20.2)	(20.2)	—	(20.2)
Other contributions from Parent	—	—	—	—	1.3	1.3	—	1.3
Contributions from Parent—transaction compensation— expense reimbursement	—	—	—	—	19.6	19.6	—	19.6
Noncontrolling interest effective January 24, 2013	—	—	(7.1)	—	(493.7)	(500.8)	500.8	—
Common stock issued	19.0	0.2	336.9	—	—	337.1	—	337.1
Common stock issued to CBI in exchange for operating partnership units	1.5	—	—	—	—	—	—	—
Common stock issued to CBI in exchange for settlement of IPO costs paid by CBI	0.4	—	7.1	—	—	7.1	(7.1)	—
IPO costs	—	—	(9.5)	—	—	(9.5)	—	(9.5)
Restricted shares issued	1.2	—	—	—	—	—	—	—
Net loss – January 24, 2013 to September 30, 2013	—	—	—	(11.8)	—	(11.8)	—	(11.8)
Noncontrolling interest allocated net loss	—	—	—	7.8	—	7.8	(7.8)	—
Stock based compensation	—	—	4.9	—	—	4.9	—	4.9
Dividends declared, \$0.48 per share	—	—	—	(10.2)	—	(10.2)	(20.9)	(31.1)
Balance at September 30, 2013	22.1	\$0.2	\$ 339.4	\$ (14.2)	\$—	\$ 325.4	\$ 465.0	\$790.4

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

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CyrusOne Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in millions)

	Successor	Predecessor	Predecessor
	January 24, 2013	January 1, 2013	Nine Months
	to September 30,	to January 23,	Ended
	2013	2013	September 30,
			2012
Net cash provided by operating activities	\$62.8	\$2.0	\$42.8
Cash flows from investing activities:			
Capital expenditures – acquisitions of real estate	(33.3	) —	(25.4
Capital expenditures – other development	(124.6	) (7.7	) (121.0
Increase in restricted cash	—	—	(11.1
Release of restricted cash	4.4	1.9	0.7
Advances to affiliates	—	—	(9.6
Proceeds from sale of assets	—	—	0.2
Net cash used in investing activities	(153.5	) (5.8	) (166.2
Cash flows from financing activities:			
Issuance of common stock	360.5	—	—
IPO costs	(23.4) —	—
Borrowings from affiliates, net	—	—	131.9
Dividends paid	(20.7) —	—
Payments on capital leases and other financing arrangements	(3.7	) (0.6	) (5.2
Payments to buyout capital leases	(9.6) —	—
Payment to buyout other financing arrangement	(10.2) —	—
Contributions (distributions) from (to) parent, net	—	0.2	(0.7
Debt issuance costs	(1.3) —	—
Net cash provided by (used in) financing activities	291.6	(0.4	) 126.0
Net increase (decrease) in cash and cash equivalents	200.9	(4.2	) 2.6
Cash and cash equivalents at beginning of period	12.3	16.5	0.6
Cash and cash equivalents at end of period	\$213.2	\$12.3	\$3.2
Supplemental disclosures			
Cash paid for interest, net of amount capitalized	\$21.8	\$0.3	\$32.9
Capitalized interest	1.6	—	1.6
Acquisition of property in accounts payable and other liabilities	30.2	15.7	26.4
Assumed liabilities in buyout of other financing obligation lease	0.2	—	—
Contribution receivable from Parent related to transaction-related compensation	—	19.6	—
Dividends payable	10.4	—	—
Deferred IPO costs	—	1.7	—
Deferred IPO costs reclassified to additional paid in capital	9.5	—	—

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

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CyrusOne Inc.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Description of Business

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

CyrusOne’s operations are primarily conducted through the Operating Partnership. CyrusOne intends to elect the status of and qualify as a REIT under the Internal Revenue Code of 1986 (“the Code”), as amended, for the taxable year ended December 31, 2013.

2. Formation