CyrusOne Inc.
Form 10-K
March 29, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2012

¨ **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.

(Exact name of registrant as specified in its charter)

Maryland	**46-0691837**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1649 West Frankford Road, Carrollton, TX 75007

(Address of Principal Executive Offices) (Zip Code)

(972) 350-0060

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $.01 par value	NASDAQ

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No x

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The registrant completed the initial public offering of its Common Stock on January 24, 2013. Accordingly, there was no public market for the registrant s Common Stock as of June 29, 2012, the last business day of the registrant s most recently completed second fiscal quarter. The aggregate market value of the voting Common Stock owned by non-affiliates on March 14, 2013 was $416,535,487, computed by reference to the closing sale price of the Common Stock on the NASDAQ Global Select Market on such date.

There were 21,884,703 shares of Common Stock outstanding as of March 14, 2013.

Documents Incorporated by Reference: None.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We make statements in this Annual Report on Form 10-K that are forward-looking statements within the meaning of the federal securities laws. In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, estimates or anticipates or the negative o phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions.

Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise and we may not be able to realize them. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- loss of key customers;
- defaults on or non-renewal or early termination of leases by customers;
- economic downturn, natural disaster or oversupply of data centers in the limited geographic area that we serve;
- inability to supply customers with adequate electrical power;
- inability to renew leases on the data center buildings in our portfolio not owned by us;
- risks related to natural disasters and inadequate insurance coverage;
- risks related to the inability to obtain title insurance;
- risks related to the failure of our physical infrastructure or services;
- risks related to the development of our properties and our ability to successfully lease those properties;
- risks related to third-party suppliers of power, Internet connectivity and other services;
- loss of access to key third-party service providers and suppliers;
- long sales cycle for data center services;

risks related to our international activities, including expanding our international operations;

inability to identify and complete acquisitions and operate acquired properties;

customers choosing to develop their own data centers;

decrease in demand for data center services;

our failure to obtain necessary outside financing on favorable terms, or at all;

inability to manage growth;

our level of indebtedness or debt service obligations;

restrictions in the instruments governing our indebtedness;

risks related to litigation and environmental matters;

risks related to increased regulations;

- unknown or contingent liabilities related to our acquired properties;
- management s inexperience operating as a real estate investment trust (REIT);
- significant competition in our industry;
- loss of key personnel;
- obsolescence of our data center infrastructure;
- risks related to assuming unknown liabilities;
- failure to maintain our status as a REIT;
- changes in U.S. tax law and other U.S. laws, whether or not specific to REITs;
- insufficient cash available to meet distribution requirements;
- risks related to the real estate industry;
- risks related to Cincinnati Bell Inc. (CBI), an Ohio corporation, owning shares of our common stock; and
- risks related to our organizational structure.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could impact our future results, performance or transactions, see the section entitled Risk Factors.

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EXPLANATORY NOTE

This report represents the Annual Report on Form 10-K for the year ended December 31, 2012 for CyrusOne Inc. On January 24, 2013, CyrusOne Inc. completed the initial public offering of its common stock. CyrusOne Inc. was formed on July 31, 2012 and prior to its initial public offering, it had minimal activity, consisting solely of deferred offering costs. The combined financial statements included in this Annual Report of CyrusOne Inc., CyrusOne GP, CyrusOne LP and its subsidiaries referred to, collectively, as CyrusOne , the Company , we and Predecessor reflect the historical financial position, results of operations and cash flows of the data center activities and holdings of CBI for all periods presented. The Predecessor s historical financial statements have been prepared on a carve-out basis from CBI s consolidated financial statements using the historical results of operations, cash flows, assets and liabilities attributable to the data center business and include allocations of income, expenses, assets and liabilities from CBI. These allocations reflect significant assumptions, and the combined financial statements do not fully reflect what the Predecessor s financial position, results of operations and cash flows would have been had the Predecessor been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of CyrusOne Inc. s future results of operations, financial position and cash flows.

Effective January 24, 2013, CyrusOne Inc. became subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act) and will file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). These reports and other information filed by the Company may be read and copied at the Public Reference Room of the SEC, 100 F Street N.E., Washington, D.C. 20549. Information about the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, and other information about issuers, like the Company, which file electronically with the SEC. The address of that site is http://www.sec.gov. The Company makes available its reports on Form 10-K, 10-Q, and 8-K (as well as all amendments to these reports), and other information, free of charge, at the Investor Relations section of its website at www.cyrusone.com. The information found on, or otherwise accessible through, our website is not incorporated by reference into, nor does it form a part of, this report or any other document that we file with the SEC.

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ITEM 1. BUSINESS

The Company

We are an owner, operator and developer of enterprise-class, carrier-neutral data center properties. Enterprise-class, carrier-neutral data centers are purpose-built facilities with redundant power, cooling and telecommunications systems and that are not network-specific, enabling customer interconnectivity to a range of telecommunications carriers. We provide mission-critical data center facilities that protect and ensure the continued operation of information technology (IT) infrastructure for over 500 customers. Our goal is to be the preferred global data center provider to the Fortune 1000. As of December 31, 2012, our customers included nine of the Fortune 20 and 115 of the Fortune 1000 or private or foreign enterprises of equivalent size. These 115 customers provided 76% of our annualized rent as of December 31, 2012. Additionally, as of December 31, 2012, our top 10 customers (including CBI) provided 45% of our annualized rent.

We cultivate long-term strategic relationships with our customers and provide them with solutions for their data center facilities and IT infrastructure challenges. Our offerings provide flexibility, reliability and security and are delivered through a tailored, customer service focused platform that is designed to foster long-term relationships. We focus on attracting customers that have not historically outsourced their data center needs. We believe our capabilities and reputation for serving the needs of large enterprises will allow us to capitalize on the growing demand for outsourced data center facilities in our markets and in new markets where our customers are located or plan to be located in the future.

Structure and Formation of Our Company

Our business is comprised of the historical data center activities and holdings of CBI. CBI has operated its Cincinnati-based data center business for over 10 years; in addition, it acquired GramTel Inc. (GramTel), a data center operator in South Bend, Indiana and Chicago, Illinois, for approximately $20 million in December 2007; and it acquired Cyrus Networks, LLC (Cyrus Networks), a data center operator based in Texas, for approximately $526 million, net of cash acquired, in June 2010.

On November 20, 2012, certain subsidiaries of CBI contributed certain assets and operations including assets and operations acquired through the GramTel and Cyrus Networks acquisitions to our operating partnership, CyrusOne LP. The transactions described below were designed to consolidate the ownership of a portfolio of properties owned by CBI into our operating partnership enabling us to raise the necessary capital to repay indebtedness owed to CBI and enabling us to qualify as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2013. Pursuant to the formation transactions:

CyrusOne Inc. was formed as a Maryland corporation on July 31, 2012.

Our operating partnership, CyrusOne LP, was formed as a Maryland limited partnership on July 31, 2012.

CyrusOne GP, the general partner of our operating partnership, was formed as a Maryland statutory trust on July 31, 2012.

On November 20, 2012, our operating partnership, together with CyrusOne Finance Corp. issued $525 million of senior notes, from which net proceeds received were approximately $512 million. On November 20, 2012, our operating partnership also entered into a $225 million revolving credit facility that is secured by substantially all of our assets.

On November 20, 2012, our operating partnership received a contribution of direct and indirect interests in a portfolio of properties owned by CBI and certain of its subsidiaries in exchange for operating partnership units, as adjusted to reflect a unit split immediately prior to the completion of our initial public offering. Certain of the properties were directly contributed to CyrusOne LP and certain properties were contributed through the contribution of the equity interests of the entity that directly owned those properties.

Our operating partnership used the net proceeds of the senior notes issuance to repay approximately $480 million of indebtedness owed to CBI.

On various dates throughout 2012, we entered into transition services, registration rights and other commercial agreements with CBI and certain of its subsidiaries. See Management s Discussion and Analysis of Financial Condition and Results of Operations Related Party Transactions .

As of December 31, 2012, we had a total combined indebtedness, including capital lease obligations, of approximately $557 million and other financing arrangements of approximately $61 million, and the ability to incur an additional $225 million of indebtedness through the availability under our revolving credit facility.

As of January 24, 2013, CBI owned 8.6% of our outstanding shares of common stock and 66.1% of the outstanding operating partnership units, which, if exchanged for our common stock, would represent an additional approximately 60.4% interest in our common stock.

As of January 24, 2013, our directors, executive officers, and employees owned shares of restricted stock representing approximately 4.7% of our outstanding shares of common stock, or 1.6% of our total operating partnership units and shares of common stock.

All the properties and other interests transferred to CyrusOne LP were contributed by wholly-owned subsidiaries of CBI. Because both CyrusOne LP and the subsidiaries of CBI that contributed the properties comprising our portfolio (the Contributors) were under the common control of CBI up to the completion of our initial public offering and were under common control at the time of the formation transactions, the transfer of assets and liabilities of each of these entities was accounted for at historical cost in a manner similar to a pooling of interests.

Our Initial Public Offering

On January 24, 2013, CyrusOne Inc. completed the initial public offering of its common stock, issuing approximately 19.0 million shares for $337.1 million, net of underwriters discount. On the same date, CyrusOne Inc. purchased approximately 19.0 million of CyrusOne LP s operating partnership units. In addition, CBI exchanged approximately 1.5 million of our partnership units for CyrusOne common stock, and CBI was issued 0.4 million CyrusOne shares as repayment for transaction costs paid by CBI in connection with our initial public offering. CyrusOne Inc. also issued approximately 1.0 million of its common shares to directors and employees. Vesting of these shares is contingent upon completion of service. Following the completion of these transactions, CyrusOne Inc. and CyrusOne GP held a combined 33.9% interest in CyrusOne LP, with the remaining 66.1% interest held by CBI.

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The following diagram depicts our ownership structure as of January 24, 2013 following completion of our initial public offering:

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Our Competitive Strengths

We believe the following competitive strengths distinguish us from other data center operators and will enable us to continue to grow our operations.

High Quality Customer Base. The high quality of our assets combined with our reputation for serving the needs of large enterprises has enabled us to focus on the Fortune 1000 to build a quality customer base. We currently have over 500 customers from a broad spectrum of industries, with a particular expertise serving the energy industry, which comprises 37% of our annualized rent as of December 31, 2012. We currently have nine of the Fortune 20 and 115 of the Fortune 1000 or private or foreign enterprises of equivalent size as customers, including five of the six supermajor oil and gas companies. Our revenue is generated by a stable enterprise customer base, as evidenced by the following as of December 31, 2012:

- 76% of our annualized rent comes from the Fortune 1000 or private or foreign enterprises of equivalent size.
- 57% of our annualized rent comes from investment grade companies or their affiliates, based on the parent company s corporate credit rating by Standard & Poor s Ratings Services (S&P).
- 39% of our annualized rent comes from the Fortune 100 or private or foreign enterprises of equivalent size.

As of December 31, 2012, CBI represented 9% of our annualized rent under contracts, which is largely comprised of two customers to whom we provide services through contracts entered into between those customers and Cincinnati Bell Technology Solutions Inc., a subsidiary of CBI (CBTS). Customer consent is required in order to assign those contracts to us, and while we expect those contracts to be assigned to us, such consent has not yet been obtained. Excluding these customers, CBI represented 3% of our annualized rent as of December 31, 2012. As of December 31, 2012, no single other customer represented more than 8% of our annualized rent, and our top 10 customers (including CBI) represented 45% of our annualized rent.

Strategically Located Portfolio. Our portfolio is located in several domestic and international markets possessing attractive characteristics for enterprise-focused data center operations. We have domestic properties in five of the top 10 largest U.S. cities by population (Chicago, Dallas, Houston, Phoenix and San Antonio), according to the U.S. Census Bureau, and four of the top 10 cities for Fortune 500 headquarters (Chicago, Cincinnati, Dallas and Houston), according to *Forbes*. We believe cities with large populations or a large number of corporate headquarters are likely to produce incremental demand for IT infrastructure. In addition, being located close to our current and potential customers provides chief information officers (CIOs) with additional confidence when outsourcing their data center infrastructure to us.

Modern, High Quality Facilities. Our portfolio includes highly efficient, reliable facilities with advanced cooling capabilities and the security systems necessary to provide an environment suitable for some of our clients most vital technology infrastructure. To optimize the delivery of power, our properties include modern engineering technologies designed to minimize unnecessary power usage and, in our newest facilities, we are able to provide power utilization efficiency ratios we believe to be among the best in the multi-customer data center industry. In our newest facilities, we take a Massively Modular^{SM} approach to site selection, design and construction such that we are able to deliver a range of power densities to our customers within a single facility. Our Massively Modular^{SM} design principles allow us to efficiently stage construction on a large scale and deliver colocation square feet (CSF) in a timeframe that we believe is one of the best in the industry. We acquire or build a large powered shell capable of scaling with our customers power and colocation space needs.

The powered shell can be acquired or constructed for a relatively inexpensive capital cost. Once the building shell is ready, we can build individual data center halls in portions of the building space to meet the needs of customers on a modular basis. This modular data center hall construction can be completed in less than 16 weeks to meet our customers immediate needs. This short construction timeframe ensures a very high utilization of the

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assets and minimizes the time between our capital investment and the receipt of customer revenue, favorably impacting our return on investment while also translating into lower costs for our customers. Our design principles also allow us to add incremental equipment to increase power densities as our customers power needs increase, which provides our customers with a significant amount of flexibility to manage their IT demands. We believe this Massively Modular^{SM} approach allows us to respond to rapidly evolving customer needs, to commit capital toward the highest return projects and to develop state-of-the-art data center facilities.

Significant Leasing Capability and Low Recurring Rent Churn. Our focus on the customer, our ability to scale with its needs, and our operational excellence provides us with two key benefits: embedded future growth from our customer base and low recurring rent churn. Our total annualized rent increased by approximately 20%, and our existing customer base provided approximately 65% of such increase, between December 31, 2011 and December 31, 2012. Since December 31, 2011, we have increased net rentable square feet (NRSF) by 22%, while maintaining a high percentage of NRSF leased of 76% at December 31, 2012.

Our management team focuses on minimizing recurring rent churn. We define recurring rent churn as any reduction in recurring rent due to customer terminations, net pricing reductions or service reductions as a percentage of the annualized rent at the beginning of the applicable period, excluding any impact from metered power reimbursements. For 2012, our recurring rent churn was 4.6%, which includes the termination of one lease for legacy data center space that had been utilized for over 20 years. The legacy data center space has been decommissioned and is expected to be developed into data center space that we believe will generate higher amounts of revenue than the prior lease. Excluding this lease, the recurring rent churn for 2012 would have been 3.6%. In 2011, we experienced a recurring rent churn of 3%, approximately half of which was attributable to customers that ceased using our facilities.

Significant, Attractive Expansion Opportunities. Our current development properties and available acreage were selected based on extensive site selection criteria and the collective industry knowledge and experience of our management team. As a result, we believe that our development portfolio contains properties that are located in markets with attractive supply and demand conditions and that possess suitable physical characteristics to support data center infrastructure. In addition to our operating NRSF of approximately 1,716,000 as of December 31, 2012, we are currently developing vacant properties and new facilities to create approximately 238,000 NRSF under construction, 803,000 NRSF of powered shell available for future development, and approximately 140 acres of land that are available for future data center facility development.

Differentiated Reputation for Service. We believe that the decision CIOs make to outsource their data center infrastructure has material implications for their businesses, and, as such, CIOs look to third-party data center providers that have a reputation for serving similar organizations and that are able to deliver a customized solution. We take a consultative approach to understanding the unique requirements of our customers, and our design principles allow us to deliver robust flexibility in the scale, power and location of our data center infrastructure. We believe that this approach has helped fuel our growth. Our current customers are also often the source of new contracts, with referrals being an important source of new customers.

Experienced Management Team. Our management team is comprised of individuals drawing on diverse knowledge and skill sets acquired through extensive experiences in the real estate, telecommunications and mission-critical infrastructure industries. Our management team of nine individuals has an average of approximately fifteen years of experience in the data center and communications industries.

Business and Growth Strategies

Our objective is to grow our revenue and earnings and maximize stockholder returns by continuing to expand our data center infrastructure outsourcing business.

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Increasing Revenue from Existing Customers and Properties. We have historically generated a significant portion of our revenue growth from our existing customers. Our total annualized rent increased by approximately 20%, and our existing customer base provided approximately 65% of such increase, between December 31, 2011 and December 31, 2012. We plan to continue to target our existing customers, because we believe that many have significant data center infrastructure that has not yet been outsourced, and many will require additional data center space to support their growth and their increasing reliance on technology infrastructure in their operations. To address new demand, as of December 31, 2012, we have approximately 413,000 NRSF available for lease, 238,000 NRSF under development and 803,000 NRSF of additional powered shell available for future development. Our portfolio also contains approximately 140 acres of land that are available for future data center facility development.

Attracting and Retaining New Customers. Increasingly, enterprises are beginning to recognize the complexities of managing data center infrastructure in the midst of rapid technological development and innovation. We believe that these complexities, brought about by the rapidly increasing levels of Internet traffic and data, obsolete existing corporate data center infrastructure, increased power and cooling requirements and increased regulatory requirements, are driving the need for companies to outsource their data center facility requirements. Consequently, this will significantly increase the percentage of companies that use third-party data center colocation services over the next several years. We believe that our high quality assets and reputation for serving large enterprises have been, and will be, key differentiators for us in attracting customers that are outsourcing their data center infrastructure needs. Since 2010, we have signed more than 100 new customers, many of whom were outsourcing data center infrastructure for the first time. We have historically managed our sales process through a direct-to-the-customer model but have recently begun utilizing third-party leasing agents to expand our universe of potential new customers. Regardless of how a potential customer lead is generated, every opportunity undergoes a rigorous review process designed to maximize cash flow generation and customer retention. Additionally, throughout the life cycle of a customer s interaction with us, we maintain a disciplined approach to monitoring their experience, with the goal of providing the highest level of customer service. We plan to continue to pursue large enterprise customers by leveraging our relationships and reputation, and by developing our existing pipeline of inventory to meet their needs.

Expanding into New Domestic and International Markets. Our expansion strategy focuses on developing new data centers in markets where our customers are located and in markets where our customers want to be located. We regularly meet with our customers to understand their business strategies and potential data center needs. We also conduct extensive analysis to ensure an identified market displays strong data center fundamentals, independent of the demand presented by any particular customer. We believe that this approach significantly reduces the risk associated with expansion into new markets because it provides strong visibility into our anticipated cash flow and helps to ensure targeted returns on new developments. Our strategy for entering a new market will vary based on in-place real estate and data center infrastructure and could include greenfield construction projects as well as acquisitions.

Growing Interconnection Business. Our customers are increasingly seeking to connect to one another via private peering, cross connects and/or public switching environments. Interconnection allows our customers to share information and conduct commerce in a highly efficient manner not requiring a third-party intermediary and at a fraction of the cost normally required to establish such a connection between two enterprises. The demand for interconnection creates additional rental and revenue growth opportunities for us, and we believe that customer interconnections increase our likelihood of customer retention by providing an environment not easily replicated by competitors. Interconnections are made possible by our customers common location in our facilities and our provisioning of the infrastructure necessary to interconnect within our facilities, and, as a result, we believe that it would require significant coordination and capital for our customers to move their interconnection to a different location. Since many of our facilities currently have the infrastructure necessary to provide interconnection, we plan to market this capability to our existing customers, and we will incorporate interconnection into our current and future developments. We anticipate implementing interconnection infrastructure in our existing facilities that do not currently have it. Compared to the capital required to build a

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data center, the capital required for interconnection is minimal, which we believe creates the potential to create attractive capital returns. We act as the trusted neutral party that enterprises, carriers and content companies utilize to connect to each other. We believe that the reputation and industry relationships of our executive management team place us in an ongoing trusted provider role.

Selectively Pursuing Property Acquisition Opportunities. We intend to seek opportunities to acquire existing or potential data center properties in key strategic markets. In addition, we currently lease certain of our data center properties and, to the extent economically attractive, we may opportunistically seek to purchase those properties. We take a disciplined approach in evaluating potential business, property and site acquisitions, including expected demand from existing and new customers, the current competitive environment, a site s geographic attributes, availability of telecommunications providers, access to power, expected costs for development and potential barriers to entry for other third-party data center providers.

Our principal executive offices are located at 1649 West Frankford Road, Carrollton, TX 75007. Our telephone number is (972) 350-0060. We maintain a website, www.cyrusone.com. The information contained on, or accessible through, our website is not incorporated by reference into this Annual Report on Form 10-K.

Our Portfolio

As of December 31, 2012, our property portfolio included 24 operating data centers in ten distinct markets (Austin, Chicago, Cincinnati, Dallas, Houston, London, Phoenix, San Antonio, Singapore and South Bend), collectively providing approximately 1,716,000 NRSF and powered by approximately 135 megawatts (MW) of utility power. We own ten of the buildings in which our data center facilities are located. We lease the remaining 14 buildings, which account for approximately 600,000 NRSF, or approximately 35% of our total operating NRSF. These leased buildings accounted for 37% of our total annualized rent as of December 31, 2012. Of these leased facilities, four are considered to be strategic, two of which have purchase options or rights of first refusal and the other two have lease terms in excess of 20 years including renewals. We also currently have 238,000 NRSF under development at two data centers (Houston and Phoenix) and 803,000 NRSF of additional powered shell space under roof and available for development. In addition, we have approximately 140 acres of land that are available for future data center facility development. Along with our primary product offering, leasing of colocation space, our customers are increasingly interested in our ancillary office and other space, which is listed separately in the following table. We believe our existing operating portfolio and development pipeline will allow us to meet the evolving needs of our existing customers and continue to attract new customers. The following tables provide an overview of our operating and development properties as of December 31, 2012:

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CyrusOne Inc.

Data Center Portfolio

As of December 31, 2012

(Unaudited)

(dollars in millions)			Operating Net Rentable Square Feet (NRSF)[a]						
Facilities	**Metropolitan Area**	**Annualized Rent[b]**	**Colocation Space (CSF)[c]**	**Office & Other[d]**	**Supporting Infrastructure[e]**	**Total[f]**	**Percent Leased[g]**	**Powered Shell Available for Future Development (NRSF)[h]**	**Available Utility Power (MW)[i]**
South									
Southwest Fwy (Galleria)	Houston	$ 43,986,744	63,469	17,247	23,202	103,918	92%		16
Westway Park Blvd. (Houston West)	Houston	$ 36,018,192	112,133	8,749	35,674	156,556	82%	3,000	12
S. State Hwy 121 Business (Lewisville)*	Dallas	$ 34,042,101	108,687	9,316	59,333	177,336	88%	2,000	8
Midway**	Dallas	$ 6,387,262	9,782			9,782	100%		1
E. Ben White Blvd. (Austin 1)*	Austin	$ 5,908,064	16,223	21,376	7,516	45,115	93%		5
Metropolis Drive (Austin 2)*	Austin	$ 1,820,760	40,855	4,128	18,563	63,546	9%		10
Frankford Road (Carrollton)	Dallas	$ 1,068,981	47,366	24,330	36,522	108,218	11%	518,000	10
North Fwy (Greenspoint)**	Houston	$ 1,038,086	13,000	1,449		14,449	100%		1
Marsh Ln.**	Dallas	$ 1,028,758	2,245			2,245	100%		1
Bryan St.**	Dallas	$ 993,646	3,020			3,020	58%		1
Westover Hills Blvd. (San Antonio)	San Antonio	$ 964,983	35,765	172	25,777	61,714	17%	35,000	10
South Ellis Street (Phoenix)	Arizona	$	36,222		20,916	57,138	0%	45,000	10
South Total		**$ 133,257,577**	**488,767**	**86,767**	**227,503**	**803,037**	**62%**	**603,000**	**83**
Midwest									
West Seventh Street (7th St.)***	Cincinnati	$ 31,494,515	208,918	5,744	161,023	375,685	96%	52,000	13
Fujitec Drive (Lebanon)	Cincinnati	$ 17,281,558	60,556	32,484	44,506	137,546	81%	90,000	12
Industrial Road (Florence)*	Cincinnati	$ 14,564,657	52,698	46,848	40,374	139,920	94%		10
Knightsbridge Drive (Hamilton)*	Cincinnati	$ 9,562,185	46,565	1,077	35,336	82,978	90%		5
Parkway (Mason)	Cincinnati	$ 5,891,008	34,072	26,458	17,193	77,723	99%		3
Springer Street (Lombard)*	Chicago	$ 2,146,900	13,560	4,115	12,231	29,906	54%	29,000	3
E. Monroe Street (Monroe St.)	South Bend	$ 1,363,289	6,350		6,478	12,828	81%	4,000	1
Goldcoast Drive (Goldcoast)	Cincinnati	$ 1,390,140	2,728	5,280	16,481	24,489	100%	14,000	1
Crescent Circle (Blackthorn)*	South Bend	$ 851,544	3,368		5,125	8,493	47%	11,000	1
McAuley Place (Blue Ash)*	Cincinnati	$ 533,866	6,193	6,950	2,166	15,309	71%		1
Midwest Total		**$ 85,079,662**	**435,008**	**128,956**	**340,913**	**904,877**	**91%**	**200,000**	**50**
International									
Kestral Way (London)**	London	$ 1,325,128	5,000			5,000	78%		1
Jurong East (Singapore)**	Singapore	$ 303,601	3,200			3,200	12%		1
International Total		**$ 1,628,729**	**8,200**			**8,200**	**52%**		**2**
Total		**$ 219,965,968**	**931,975**	**215,723**	**568,416**	**1,716,114**	**76%**	**803,000**	**135**

* Indicates properties in which we hold a leasehold interest in the building shell and land. All data center infrastructure has been constructed by us and owned by us.

** Indicates properties in which we hold a leasehold interest in the building shell, land, and all data center infrastructure.

*** The information provided for West Seventh Street (7th St.) property includes data for two facilities, one of which we lease and one of which we own.

(a) Represents the total square feet of a building under lease or available for lease based on engineers drawings and estimates but does not include space held for development or space used by us.

(b) Represents monthly contractual rent (defined as cash rent including customer reimbursements for metered power) under existing customer leases as of December 31, 2012, multiplied by 12. For the month of December 31, 2012, customer reimbursements were $20.8 million annualized and consisted of reimbursements by customers across all facilities with separately metered power. Customer reimbursements under leases with separately metered power vary from month-to-month based on factors such as our customers utilization of power and the suppliers pricing of power. From January 1, 2011 through December 31, 2012, customer reimbursements under leases with separately metered power constituted between 7.2% and 9.7% of annualized rent. After giving effect to abatements, free rent and other straight-line adjustments, our annualized effective rent as of December 31, 2012 was $231,232,980. Our annualized

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effective rent was greater than our annualized rent as of December 31, 2012 because our positive straight-line and other adjustments and amortization of deferred revenue exceeded our negative straight-line adjustments due to factors such as the timing of contractual rent escalations and customer prepayments for services.

(c) CSF represents the NRSF at an operating facility that is currently leased or readily available for lease as colocation space, where customers locate their servers and other IT equipment.

(d) Represents the NRSF at an operating facility that is currently leased or readily available for lease as space other than CSF, which is typically office and other space.

(e) Represents infrastructure support space, including mechanical, telecommunications and utility rooms, as well as building common areas.

(f) Represents the NRSF at an operating facility that is currently leased or readily available for lease. This excludes existing vacant space held for development.

(g) Percent leased is determined based on NRSF being billed to customers under signed leases as of December 31, 2012 divided by total NRSF. Leases signed but not commenced as of December 31, 2012 are not included. Supporting infrastructure has been allocated to leased NRSF on a proportionate basis for purposes of this calculation.

(h) Represents space that is under roof that could be developed in the future for operating NRSF, rounded to the nearest 1,000.

(i) Represents installed power capacity that can be delivered to the facility by the local utility provider. Does not sum to total due to rounding.

(Square feet rounded to nearest 1,000; dollars in millions)

		NRSF Under Development[(a)]							
		Under Development					Under Development Costs[(b)]		
Facilities	**Metropolitan Area**	**Colocation Space (CSF)**	**Office & Other**	**Supporting Infrastructure**	**Powered Shell[(c)]**	**Total**	**Actual to Date**	**Estimated Costs to Completion**	**Total**
South Ellis Street (Phoenix)	Arizona		21,000		60,000	81,000	$ 10	$ 3	$ 13
Westway Park Blvd. (Houston West)	Houston	42,000	30,000	42,000	43,000	157,000	$ 9	$ 22	$ 31
Total		**42,000**	**51,000**	**42,000**	**103,000**	**238,000**	**$ 19**	**$ 25**	**$ 44**

(a) Represents NRSF at a facility for which substantial activities have commenced to prepare the space for its intended use.

(b) Represents management s estimate of the total costs required to complete the current NRSF under development. There may be an increase in costs if customers require greater power density.

(c) Represents NRSF under construction that, upon completion, will be powered shell available for future development into operating NRSF.

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Our portfolio is currently leased to approximately 500 companies, many of which are leading global companies. The following table sets forth information regarding the 20 largest customers, including affiliates, in our portfolio based on annualized rent as of December 31, 2012:

CyrusOne Inc.

Customer Diversification

As of December 31, 2012

(Unaudited)

Principal Customer Industry	Number of Locations	Annualized Rent[(a)]	Percentage of Portfolio Annualized Rent[(b)]	Weighted Average Remaining Lease Term in Months[(c)]
1 Telecommunications (CBI)[(d)]	9	$ 20,622,599	9.4%	17.3
2 Energy	2	$ 16,016,330	7.3%	9.2
3 Energy	4	$ 15,694,772	7.1%	6.6
4 Research and Consulting Services	3	$ 12,324,241	5.6%	9.2
5 Information Technology	2	$ 7,110,131	3.2%	52.0
6 Telecommunication Services	1	$ 6,537,900	3.0%	52.6
7 Financials	1	$ 6,310,851	2.9%	89.1
8 Telecommunication Services	1	$ 4,924,557	2.2%	76.0
9 Energy	2	$ 4,731,000	2.2%	43.0
10 Consumer Staples	1	$ 3,952,253	1.8%	110.3
11 Energy	1	$ 3,858,120	1.8%	24.5
12 Information Technology	2	$ 3,808,882	1.7%	96.9
13 Energy	3	$ 3,695,172	1.7%	5.4
14 Information Technology	1	$ 3,608,814	1.6%	96.8
15 Energy	1	$ 3,571,203	1.6%	41.0
16 Consumer Discretionary	1	$ 3,451,040	1.6%	11.7
17 Energy	1	$ 3,152,567	1.4%	42.5
18 Energy	1	$ 3,042,430	1.4%	13.3
19 Energy	1	$ 3,018,000	1.4%	3.0
20 Information Technology	1	$ 2,681,959	1.2%	30.0
		$ 132,112,821	60.1%	32.5

(a) Represents monthly contractual rent (defined as cash rent including customer reimbursements for metered power) under existing customer leases as of December 31, 2012, multiplied by 12. For the month of December 31, 2012, customer reimbursements were $20.8 million annualized and consisted of reimbursements by customers across all facilities with separately metered power. Customer reimbursements under leases with separately metered power vary from month-to-month based on factors such as our customers utilization of power and the suppliers pricing of power. From January 1, 2011 through December 31, 2012, customer reimbursements under leases with separately metered power constituted between 7.2% and 9.7% of annualized rent. After giving effect to abatements, free rent and other straight-line adjustments, our annualized effective rent as of December 31, 2012 was $231,232,980. Our annualized effective rent was greater than our annualized rent as of December 31, 2012 because our positive straight-line and other adjustments and amortization of deferred revenue exceeded our negative straight-line adjustments due to factors such as the timing of contractual rent escalations and customer prepayments for services.

(b) Represents the customer s total annualized rent divided by the total annualized rent in the portfolio as of December 31, 2012, which was approximately $220.0 million.

(c) Weighted average based on customer s percentage of total annualized rent expiring and is as of December 31, 2012, assuming that customers exercise no renewal options and exercise all early termination rights that require payment of less than 50% of the remaining rents. Early termination rights that require payment of 50% or more of the remaining lease payments are not assumed to be exercised because such payments approximate the profitability margin of leasing that space to the customer, such that we do not consider early termination to be economically detrimental to us.

(d) Includes information for both Cincinnati Bell Technology Solutions and Cincinnati Bell Telephone Company LLC and two customers that have contracts with CBTS. We expect the contracts for these two customers to be assigned to us, but the consents for such assignments have not yet been obtained. Excluding these customers, Cincinnati Bell Inc. and subsidiaries represented 3% of our annualized rent as of December 31, 2012.

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Lease Distribution

The following table sets forth information relating to the distribution of customer leases in the properties in our portfolio, based on NRSF under lease as of December 31, 2012:

CyrusOne Inc.

Lease Distribution

As of December 31, 2012

(Unaudited)

NRSF Under Lease[(a)]	Number of Customers[(b)]	Percentage of All Customers	Total Leased NRSF[(c)]	Percentage of Portfolio Leased NRSF	Annualized Rent[(d)]	Percentage of Annualized Rent
0-999	420	81%	71,462	5%	$ 31,476,839	14%
1000-2499	32	6%	51,737	4%	$ 13,290,121	6%
2500-4999	23	5%	80,741	6%	$ 20,788,080	10%
5000-9999	15	3%	111,933	9%	$ 29,404,658	13%
10000+	28	5%	987,116	76%	$ 125,006,270	57%
Total	518	100%	1,302,989	100%	$ 219,965,968	100%

(a) Represents all leases in our portfolio, including colocation, office and other leases.
(b) Represents the number of customers in our portfolio utilizing data center, office and other space.
(c) Represents the total square feet at a facility under lease and that has commenced billing, excluding space held for development or space used by CyrusOne. A customer s leased NRSF is estimated based on such customer s direct CSF or office and light-industrial space plus management s estimate of infrastructure support space, including mechanical, telecommunications and utility rooms, as well as building common areas.
(d) Represents monthly contractual rent (defined as cash rent including customer reimbursements for metered power) under existing customer leases as of December 31, 2012, multiplied by 12. For the month of December 31, 2012, customer reimbursements were $20.8 million annualized and consisted of reimbursements by customers across all facilities with separately metered power. Customer reimbursements under leases with separately metered power vary from month-to-month based on factors such as our customers utilization of power and the suppliers pricing of power. From January 1, 2011 through December 31, 2012, customer reimbursements under leases with separately metered power constituted between 7.2% and 9.7% of annualized rent. After giving effect to abatements, free rent and other straight-line adjustments, our annualized effective rent as of December 31, 2012 was $231,232,980. Our annualized effective rent was greater than our annualized rent as of December 31, 2012 because our positive straight-line and other adjustments and amortization of deferred revenue exceeded our negative straight-line adjustments due to factors such as the timing of contractual rent escalations and customer prepayments for services.

Lease Expirations

The following table sets forth a summary schedule of the customer lease expirations for leases in place as of December 31, 2012 plus available space, for each of the 10 full calendar years beginning January 1, 2013, at the properties in our portfolio. Customers whose leases have been auto-renewed prior to December 31, 2012 are shown in the calendar year in which their current auto-renewed term expires. Unless otherwise stated in the footnotes, the information set forth in the table assumes that customers exercise no renewal options and exercise all early termination rights that require payment of less than 50% of the remaining rents. Early termination rights that require payment of 50% or more of the remaining lease payments are not assumed to be exercised because such payments approximate the profitability margin of leasing that space to the customer, such that we do not consider early termination to be economically detrimental to us.

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CyrusOne Inc.

Lease Expirations

As of December 31, 2012

(Unaudited)

Year	Number of Leases Expiring[(a)]	Total Operating NRSF Expiring	Percentage of Total NRSF	Annualized Rent[(b)]	Percentage of Annualized Rent	Annualized Rent at Expiration[(c)]	Percentage of Annualized Rent at Expiration
Available		413,127	24%				
Month-to-Month	161	136,101	8%	$ 17,519,124	8%	$ 17,519,124	7%
2013	648	302,160	18%	$ 80,406,353	36%	$ 80,549,393	35%
2014	362	116,956	7%	$ 31,277,379	14%	$ 31,418,476	13%
2015	437	226,540	13%	$ 27,924,410	13%	$ 35,425,158	15%
2016	28	21,400	1%	$ 10,688,746	5%	$ 11,591,325	5%
2017	55	192,179	11%	$ 23,604,623	11%	$ 23,763,457	10%
2018	19	32,012	2%	$ 5,860,490	3%	$ 5,870,458	3%
2019	3	91,455	5%	$ 5,108,571	2%	$ 5,108,571	2%
2020	2	81,997	5%	$ 6,310,851	3%	$ 6,310,851	3%
2021	3	31,403	2%	$ 4,461,960	2%	$ 6,597,960	3%
2022	4	34,460	2%	$ 4,468,911	2%	$ 7,047,828	3%
2023 - Thereafter	2	36,324	2%	$ 2,334,550	1%	$ 2,834,539	1%
Total	1,724	1,716,114	100%	$ 219,965,968	100%	$ 234,037,140	100%

(a) Number of leases represents each agreement with a customer. A lease agreement could include multiple spaces and a customer could have multiple leases.

(b) Represents monthly contractual rent (defined as cash rent including customer reimbursements for metered power) under existing customer leases as of December 31, 2012, multiplied by 12. For the month of December 31, 2012, customer reimbursements were $20.8 million annualized and consisted of reimbursements by customers across all facilities with separately metered power. Customer reimbursements under leases with separately metered power vary from month-to-month based on factors such as our customers utilization of power and the suppliers pricing of power. From January 1, 2011 through December 31, 2012, customer reimbursements under leases with separately metered power constituted between 7.2% and 9.7% of annualized rent. After giving effect to abatements, free rent and other straight-line adjustments, our annualized effective rent as of December 31, 2012 was $231,232,980. Our annualized effective rent was greater than our annualized rent as of December 31, 2012 because our positive straight-line and other adjustments and amortization of deferred revenue exceeded our negative straight-line adjustments due to factors such as the timing of contractual rent escalations and customer prepayments for services.

(c) Represents the final monthly contractual rent under existing customer leases that had commenced as of December 31, 2012, multiplied by 12.

Regulation

General

Properties in our submarkets are subject to various laws, ordinances and regulations, including regulations relating to common areas. We believe that each of our properties has the necessary permits and approvals for us to operate our business.

Environmental Matters

We are subject to laws and regulations relating to the protection of the environment, in particular with respect to the storage of diesel fuel for auxiliary or emergency power. These laws and regulations govern, among other things, the management and disposal of hazardous materials, emissions to air and discharges to water, the cleanup of contaminated sites and health and safety matters. While we believe that our operations are in substantial compliance with environmental, health, and human safety laws and regulations, as an owner or operator of property and in connection with the current and historical use of hazardous materials and other operations at its sites, we could incur significant costs, including fines, penalties and other sanctions, cleanup costs and third-party claims for property damages or personal injuries, as a result of violations of or liabilities under environmental laws and regulations.

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Many of our sites include the bulk storage of diesel fuel in above ground, and in a few cases underground, storage tanks for back-up generator use. These operations also include the use of batteries, which we recycle or dispose of at the end of their useful life via third-party service providers. Some of our sites also have a history of previous commercial operations, including past underground storage tanks. We also may acquire or develop sites in the future with unknown environmental conditions from historical operations. Although we are not aware of any sites at which we currently have material remedial obligations, the imposition of remedial obligations as a result of spill or the discovery of contaminants in the future could result in significant additional costs to us.

Our operations also require us to obtain permits and other governmental approvals and to develop response plans in connection with the use of our generators or other operations. These requirements could restrict our operations or delay the development of data centers in the future. In addition, we could incur significant costs complying with environmental laws or regulations that are promulgated in the future.

Insurance

We carry commercial liability, fire, extended coverage, earthquake, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket policy. We select policy specifications and insured limits which we believe to be appropriate given the relative risk of loss, the cost of the coverage and industry practice and, in the opinion of our company s management, the properties in our portfolio are currently adequately insured. We do not carry insurance for generally uninsured losses such as loss from war. In addition, we carry earthquake insurance on our properties in an amount and with deductibles which we believe are commercially reasonable. Certain of the properties in our portfolio are located in areas known to be seismically active. See Risk Factors Risks Related to Our Business and Operations Any losses to our properties that are not covered by insurance, or that exceed our policy coverage limits, could adversely affect our business, financial condition and results of operations.

Competition

We compete with numerous developers, owners and operators of office and commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located, but which have lower occupancy rates than our properties. If our competitors offer space at rental rates below current market rates or below the rental rates we currently charge our customers, we may lose potential customers and we may be pressured to reduce our rental rates below those we currently charge in order to retain customers when our customers leases expire.

Employees

We employ approximately 250 persons. None of these employees are represented by a labor union.

Financial Information

For financial information related to our operations, please refer to the financial statements including the notes thereto, included in this Annual Report on Form 10-K.

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ITEM 1A. RISK FACTORS

You should carefully consider all the risks described below, as well as the other information contained in this document when evaluating your investment in our securities. Any of the following risks could materially and adversely affect our business, results of operations or financial condition. The risks and uncertainties described below are those that we currently believe may materially affect our Company. Additional risks and uncertainties of which we are unaware or that we currently deem immaterial also may become important factors that affect our Company. The occurrence of any of the following risks might cause you to lose all or a part of your investment. Some statements in this Form 10-K, including statements in the following risk factors, constitute forward-looking statements. Please refer to the section entitled Special Note Regarding Forward-Looking Statements.

Risks Related to Our Business and Operations

A small number of customers account for a significant portion of our revenue. The loss or significant reduction in business from one or more of our large customers could significantly harm our business, financial condition and results of operations, and impact the amount of cash available for distribution to our stockholders.

We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our revenue. Our top 20 customers collectively accounted for approximately 60% of our total annualized rent as of December 31, 2012. As a result of this customer concentration, our business, financial condition and results of operations, including the amount of cash available for distribution to our stockholders, could be adversely affected if we lose one or more of our larger customers, if such customers significantly reduce their business with us or if we choose not to enforce, or to enforce less vigorously, any rights that we may have now or in the future against these significant customers because of our desire to maintain our relationship with them.

A significant percentage of our customer base is also concentrated in industry sectors that may from time to time experience volatility including, in particular, the oil and gas sector. Enterprises in the energy industry comprised approximately 37% of our annualized rent as of December 31, 2012. A downturn in the oil and gas industry could negatively impact the financial condition of one or more of our oil and gas company customers, including several of our larger customers. In an industry downturn, those customers could default on their obligations to us, delay the purchase of new services from us or decline to renew expiring leases, any of which could have an adverse effect on our business, financial condition and results of operations.

Additionally, if any customer becomes a debtor in a case under the U.S. Bankruptcy Code, applicable bankruptcy laws may limit our ability to terminate our contract with such customer solely because of the bankruptcy or recover any amounts owed to us under our agreements with such customer. In addition, applicable bankruptcy laws could allow the customer to reject and terminate its agreement with us, with limited ability for us to collect the full amount of our damages. Our business, including our revenue and cash available for distribution to our stockholders, could be adversely affected if any of our significant customers were to become bankrupt or insolvent.

A significant percentage of our customer leases expire each year or are on a month-to-month basis, and most of our leases contain early termination provisions. If leases with our customers are not renewed on the same or more favorable terms or are terminated early by our customers, our business, financial condition and results of operations could be substantially harmed.

Our customers may not renew their leases following expiration. This risk is increased by the significant percentage of our customer leases that expire every year. As of December 31, 2012, leases representing 36%, 14% and 13% of the annualized rent for our portfolio will expire during 2013, 2014 and 2015, respectively, and an additional 8% of the annualized rent for our portfolio was from month-to-month leases. While historically we have retained a significant number of our customers, including those leasing from us on a month-to-month basis,

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upon expiration our customers may elect not to renew their leases or renew their leases at lower rates, for fewer services or for shorter terms. If we are unable to successfully renew or continue our customer leases on the same or more favorable terms or subsequently re-lease available data center space when such leases expire, our business, financial condition and results of operations could be adversely affected.

In addition, most of our leases contain early termination provisions that allow our customers to reduce the term of their leases subject to payment of an early termination charge that is often a specified portion of the remaining rent payable on such leases. Leases representing approximately 19% of our annualized rent as of December 31, 2012 require payment of less than 50% of the remaining rental payment due on the applicable lease. The exercise by customers of early termination options could have an adverse effect on our business, financial condition and results of operations.

We generate a substantial portion of our revenue by servicing a limited geographic area, which makes us more susceptible to regional economic downturns.

Our portfolio of properties consists primarily of data centers geographically concentrated in cities in Ohio and Texas. These markets comprised 37% and 61%, respectively, of our annualized rent as of December 31, 2012. As such, we are susceptible to local economic conditions and the supply of, and demand for, data center space in these markets. If there is a downturn in the economy, a natural disaster or an oversupply of, or decrease in demand for, data centers in these markets, our business could be adversely affected to a greater extent than if we owned a real estate portfolio that was more diversified in terms of both geography and industry focus.

Even if we have additional space available for lease at any one of our data centers, our ability to lease this space to existing or new customers could be constrained by our ability to provide sufficient electrical power.

Customers are increasing their use of high-density electrical power equipment in our data centers, which has significantly increased the demand for power. As current and future customers increase their power footprint in our facilities over time, the corresponding reduction in available power could limit our ability to increase occupancy rates or network density within our existing facilities. In addition, our power and cooling systems are difficult and expensive to upgrade. Accordingly, we may not be able to efficiently upgrade or change these systems to meet new demands without incurring significant costs that we may not be able to pass on to our customers.

We do not own all of the buildings in which our data centers are located. Instead, we lease or sublease certain of our data center spaces and the ability to retain these leases or subleases could be a significant risk to our ongoing operations.

We do not own 14 buildings that account for approximately 600,000 NRSF, or approximately 35% of our total operating NRSF. These leased buildings accounted for 37% of our total annualized rent as of December 31, 2012. Our business could be harmed if we are unable to renew the leases for these data centers on favorable terms or at all. Additionally, in several of our smaller facilities we sublease our space, and our rights under these subleases are dependent on our sublandlord retaining its rights under the prime lease. The weighted average remaining term for such leases and subleases is approximately nine years, or approximately 20 years after giving effect to our contractual renewal rights. When the primary terms of our existing leases expire, we generally have the right to extend the terms of our leases for one or more renewal periods, subject to, in the case of several of our subleases, our sublandlord renewing its term under the prime lease. For four of these leases and subleases, the renewal rent will be determined based on the fair market value of rental rates for the property, and the then prevailing rental rates may be higher than the current rental rates under the applicable lease. The rent for the remaining leases and subleases will be based on a fixed percentage increase over the base rent during the year immediately prior to expiration. Several of our data centers are leased or subleased from other data center companies, which may increase our risk of non-renewal or renewal on less than favorable terms. If renewal rates are less favorable than those we currently have, we may be required to increase revenues within existing data centers to offset such increase in lease payments. Failure to increase revenues to sufficiently offset these projected higher costs would adversely impact our operating income. Upon the end of our renewal options, we would have to renegotiate our lease terms with the applicable landlords.

Additionally, if we are unable to renew the lease at any of our data centers, we could lose customers due to the disruptions in their operations caused by the relocation. We could also lose those customers that choose our data centers based on their locations. In addition, it is not typical for us to relocate data center infrastructure equipment, such as generators, power distribution units and cooling units, from their initial installation. The costs of relocating such equipment to a different data centers could be prohibitive and, as such, we could lose the value of this equipment. For these reasons, any lease that cannot be renewed could adversely affect our business, financial condition and results of operations.

Any losses to our properties that are not covered by insurance, or that exceed our policy coverage limits, could adversely affect our business, financial condition and results of operations.

The properties in our portfolio are subject to casualty risks, including from causes related to riots, war, terrorism or acts of God. For example, our properties located in Texas are generally subject to risks related to tropical storms, hurricanes and other severe weather and floods, and our properties located in the Midwest are generally subject to risks related to earthquakes, tornados and other severe weather. While we carry commercial liability, fire, extended coverage, earthquake, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket policy, the amount of insurance coverage may not be sufficient to fully cover the losses we suffer.

If we experience a loss that is uninsured or that exceeds our policy coverage limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties were subject to recourse indebtedness, we could continue to be liable for the indebtedness even if these properties were irreparably damaged.

In addition, even if damage to our properties is covered by insurance, a disruption of our business caused by a casualty event may result in the loss of business or customers. The business interruption insurance we carry may not fully compensate us for the loss of business or customers due to an interruption caused by a casualty event.

A disruption in the financial markets may make it more difficult to evaluate the stability, net assets and capitalization of insurance companies and any insurer s ability to meet its claim payment obligations. A failure of an insurance company to make payments to us upon an event of loss covered by an insurance policy could adversely affect our business, financial condition and results of operations.

Our properties may not be covered by title insurance.

While we intend to seek either endorsements to provide us with the benefits of existing title insurance policies of CBI and its subsidiaries with respect to the contributed owned properties and material leased properties or new title insurance policies for such properties and we are obligated to seek new title insurance policies in connection with our revolving credit facility, we do not currently have such policies in effect. No assurance can be provided that we will obtain such policies. In addition, any title insurance coverage we do obtain may not insure for the current aggregate value of our portfolio, and we do not intend to increase our title insurance coverage if the market value of our portfolio increases. A failure to obtain title insurance could adversely affect our business, financial condition and results of operations.

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Any failure of our physical infrastructure or services could lead to significant costs and disruptions that could reduce our revenues and harm our brand and reputation.

Our business depends on providing customers with a highly reliable data center environment. We may fail to provide such service as a result of numerous factors, including:

- human error;
- unexpected equipment failure;
- power loss or telecommunications failures;
- improper building maintenance by our landlords in the buildings that we lease;
- physical or electronic security breaches;
- fire, tropical storm, hurricane, tornado, flood, earthquake and other natural disasters;
- water damage;
- war, terrorism and any related conflicts or similar events worldwide; and
- sabotage and vandalism.

Problems at one or more of our data centers, whether or not within our control, could result in service interruptions or equipment damage. Substantially all of our leases include terms requiring us to meet certain service level commitments primarily in terms of electrical output to, and maintenance of environmental conditions in, the data center raised floor space leased by customers. Any failure to meet these commitments or any equipment damage in our data centers, including as a result of mechanical failure, power outage, human error on our part or other reasons, could subject us to liability under our lease terms, including service level credits against customer rent payments, or, in certain cases of repeated failures, the right by the customer to terminate the lease. For example, although our data center facilities are engineered to reliably power and cool our customers computing equipment, it is possible that an outage could adversely affect a facility s power and cooling capabilities. Depending on the frequency and duration of these outages, the affected customers may have the right to terminate their lease, which could have a negative impact on our business. We may also be required to expend significant financial resources to protect against physical or cyber security breaches that could result in the misappropriation of our proprietary information or the information of our customers. We may not be able to implement security measures in a timely manner or, if and when implemented, these measures might be circumvented. Service interruptions, equipment failures or security breaches may also expose us to additional legal liability and damage our brand and reputation, and could cause our customers to terminate or not renew their leases. In addition, we may be unable to attract new customers if we have a reputation for significant or frequent service disruptions, equipment failures or physical or cyber security breaches in our data centers. Any such failures could adversely affect our business, financial condition and results of operations.

Our growth depends on the development of our properties and our ability to successfully lease those properties, and any delays or unexpected costs associated with such projects or the ability to lease such properties may harm our growth prospects, future business, financial condition and results of operations.

Our growth depends in part upon successfully developing properties into operating data center space. Current and future development projects will involve substantial planning, allocation of significant company resources and certain risks, including risks related to financing, zoning, regulatory approvals, construction costs and delays. These projects will also require us to carefully select and rely on the experience of one or more general contractors and associated subcontractors during the construction process. Should a general contractor or significant subcontractor experience financial or other problems during the construction process, we could experience significant delays, increased costs to complete the project and other negative impacts to our expected returns.

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Site selection is also a critical factor in our expansion plans, and there may not be suitable properties available in our markets at a location that is attractive to our customers and has the necessary combination of access to multiple network providers, a significant supply of electrical power, high ceilings and the ability to sustain heavy floor loading. Furthermore, while we may prefer to locate new data centers adjacent to our existing data centers, we may be limited by the inventory and location of suitable properties.

In addition, in developing new properties, we will be required to secure an adequate supply of power from local utilities, which may include unanticipated costs. For example, we could incur increased costs to develop utility substations on our properties in order to accommodate our power needs. Any inability to secure an appropriate power supply on a timely basis or on acceptable financial terms could adversely affect our ability to develop the property on an economically feasible basis, or at all.

These and other risks could result in delays or increased costs or prevent the completion of our development projects and growth of our business, which could adversely affect our business, financial condition and results of operations.

In addition, we have in the past undertaken development projects prior to obtaining commitments from customers to lease the related data center space. We will likely choose to undertake future development projects under similar terms. Such development involves the risk that we will be unable to attract customers to the relevant properties on a timely basis or at all. If we are unable to attract customers and our properties remain vacant or underutilized for a significant amount of time, our business, financial condition and results of operations could be adversely affected.

We are dependent upon third-party suppliers for power and certain other services, and we are vulnerable to service failures of our third-party suppliers and to price increases by such suppliers.

We rely on third party local utilities to provide power to our data centers. We are therefore subject to an inherent risk that such local utilities may fail to deliver such power in adequate quantities or on a consistent basis, and our recourse against the utility and ability to control such failures may be limited. If power delivered from the local utility is insufficient or interrupted, we would be required to provide power through the operation of our on-site generators, generally at a significantly higher operating cost than we would pay for an equivalent amount of power from the local utility. We may not be able to pass on the higher cost to our customers. In addition, if the generator power were to fail, we would generally be subject to paying service level credits to our customers, who may in certain instances have the right to terminate their leases. Furthermore, any sustained loss of power could reduce the confidence of our customers in our services thereby impairing our ability to attract and retain customers, which would adversely affect both our ability to generate revenues and our results of operations.

In addition, even when power supplies are adequate, we may be subject to pricing risks and unanticipated costs associated with obtaining power from various utility companies. While we actively seek to lock-in utility rates, many factors beyond our control may increase the rate charged by the local utility. For instance, municipal utilities in areas experiencing financial distress may increase rates to compensate for financial shortfalls unrelated to either the cost of production or the demand for electricity. Utilities may be dependent on, and be sensitive to price increases for, a particular type of fuel, such as coal, oil or natural gas. In addition, the price of these fuels and the electricity generated from them could increase as a result of proposed legislative measures related to climate change or efforts to regulate carbon emissions. In any of these cases, increases in the cost of power at any of our data centers could put those locations at a competitive disadvantage relative to data centers served by utilities that can provide less expensive power. These pricing risks are particularly acute with respect to our customer leases that are structured on a full-service gross basis, where the customer pays a fixed amount for both colocation rental and power. Our business, financial condition and results of operations could be adversely affected in the event of an increase in utility rates under these leases, which, as of December 31, 2012, accounted for approximately 39% of our leased NRSF, because we may be limited in our ability to pass on such costs to these customers.

We depend on third parties to provide network connectivity to the customers in our data centers, and any delays or disruptions in connectivity may adversely affect our business, financial condition and results of operations.

Our customers require connectivity to the fiber networks of multiple third-party telecommunications carriers. In order for us to attract and retain customers, our data centers need to provide sufficient access for customers to connect to those carriers. While we provide space and facilities in our data centers for carriers to locate their equipment and connect customers to their networks, any carrier may elect not to offer its services within our data centers or may elect to discontinue its service. Furthermore, carriers may periodically experience business difficulties which could affect their ability to provide telecommunications services, or the service provided by a carrier may be inadequate or of poor quality. If carriers were to terminate connectivity within our data centers or if connectivity were to be degraded or interrupted, it could put that data center at a competitive disadvantage versus a competitor s data center that does provide adequate connectivity. A material loss of adequate third-party connectivity could have an adverse effect on the businesses of our customers and, in turn, our own results of operations and cash flow.

Furthermore, each new data center that we develop requires significant amounts of capital to be expended by third-party telecommunications carriers for the construction and operation of a sophisticated redundant fiber network. The construction required to connect multiple carrier facilities to our data centers is complex and involves factors outside of our control, including regulatory requirements, the availability of construction resources and the sufficiency of such third-party telecommunications carriers financial resources to fund the construction. If the establishment of highly diverse network connectivity to our data centers does not occur, is materially delayed, is discontinued or is subject to failure, our ability to attract new customers or retain existing customers may be negatively affected and, as a result our results of operations and cash flow may be adversely affected. Any hardware or fiber failures on this network may result in significant loss of connectivity to our data centers, which could negatively affect our ability to attract new customers or retain existing customers.

The loss of access to key third-party technical service providers and suppliers could adversely affect our current and any future development projects.

Our success depends, to a significant degree, on having timely access to certain key third-party technical personnel who are in limited supply and great demand, such as engineering firms and construction contractors capable of developing our properties, and to key suppliers of electrical and mechanical equipment that complement the design of our data center facilities. For any future development projects, we will continue to rely on these personnel and suppliers to develop data centers. Competition for such technical expertise is intense, and there are a limited number of electrical and mechanical equipment suppliers that design and produce the equipment that we require. We may not always have or retain access to such key service providers and equipment suppliers, which could adversely affect our current and any future development projects.

The long sales cycle for data center services may adversely affect our business, financial condition and results of operations.

A customer s decision to lease space in one of our data centers and to purchase additional services typically involves a significant commitment of resources, significant contract negotiations regarding the service level commitments, and significant due diligence on the part of the customer regarding the adequacy of our facilities, including the adequacy of carrier connections. As a result, the sale of data center space has a long sales cycle. Furthermore, we may expend significant time and resources in pursuing a particular sale or customer that may not result in revenue. Our inability to adequately manage the risks associated with the data center sales cycle may adversely affect our business, financial condition and results of operations.

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Our international activities are subject to special risks different from those faced by us in the United States, and we may not be able to effectively manage our international business.

Our operations are primarily based in the United States with a more limited presence in the United Kingdom and Southeast Asia. Expanding our international operations involves risks not generally associated with investments in the United States, including:

- our limited knowledge of and relationships with sellers, customers, contractors, suppliers or other parties in these markets;
- complexity and costs associated with staffing and managing international development and operations;
- difficulty in hiring qualified management, sales and construction personnel and service providers in a timely fashion;
- problems securing and maintaining the necessary physical and telecommunications infrastructure;
- multiple, conflicting and changing legal, regulatory, entitlement and permitting, and tax and treaty environments with which we have limited familiarity;
- exposure to increased taxation, confiscation or expropriation;
- fluctuations in foreign currency exchange rates, currency transfer restrictions and limitations on our ability to distribute cash earned in foreign jurisdictions to the United States;
- longer payment cycles and problems collecting accounts receivable;
- laws and regulations on content distributed over the Internet that are more restrictive than those in the United States;
- difficulty in enforcing agreements in non-U.S. jurisdictions, including those entered into in connection with our acquisitions or in the event of a default by one or more of our customers, suppliers or contractors;
- political and economic instability, including sovereign credit risk, in certain geographic regions; and
- exposure to restrictive foreign labor law practices.

Our inability to overcome these risks could adversely affect our foreign operations and growth prospects and could harm our business, financial condition and results of operations.

We may be unable to identify and complete acquisitions and successfully operate acquired properties.

We continually evaluate the market for available properties and may acquire data centers or properties suited for data center development when opportunities exist. Our ability to acquire properties on favorable terms and successfully develop and operate them involves significant risks, including:

- we may be unable to acquire a desired property because of competition from other data center companies or real estate investors with more capital;
- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price of such property;
- we may be unable to realize the intended benefits from acquisitions or achieve anticipated operating or financial results;
- we may be unable to finance the acquisition on favorable terms or at all;
- we may underestimate the costs to make necessary improvements to acquired properties;
- we may be unable to quickly and efficiently integrate new acquisitions into our existing operations resulting in disruptions to our operations or the diversion of our management s attention;
- acquired properties may be subject to reassessment, which may result in higher than expected tax payments;

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- we may not be able to access sufficient power on favorable terms or at all; and

- market conditions may result in higher than expected vacancy rates and lower than expected rental rates.

If we are unable to successfully acquire, develop and operate data center properties, our ability to grow our business, compete and meet market expectations will be significantly impaired, which would adversely affect the price of our common stock.

Our customers may choose to develop new data centers or expand their own existing data centers, which could result in the loss of one or more key customers or reduce demand for our newly developed data centers.

In the future, our customers may choose to develop new data centers or expand or consolidate into their existing data centers that we do not own. In the event that any of our key customers were to do so, it could result in a loss of business to us or put pressure on our pricing. If we lose a customer, we cannot assure you that we would be able to replace that customer at a competitive rate or at all, which could adversely affect our business, financial condition and results of operations.

A decrease in the demand for data center space could adversely affect our business, financial condition and results of operations.

Our portfolio of properties consists primarily of data center space. A decrease in the demand for data center space would have a greater adverse effect on our business, financial condition and results of operations than if we owned a portfolio with a more diversified customer base or less specialized use. Adverse developments in the outsourced data center space industry could lead to reduced corporate IT spending or reduced demand for outsourced data center space. Changes in industry practice or in technology, such as server virtualization technology, more efficient or miniaturization of computing or networking devices, or devices that require higher power densities than today s devices, could also reduce demand for the physical data center space we provide or make the customer improvements in our facilities obsolete or in need of significant upgrades to remain viable.

We may have difficulty managing our growth.

We have significantly and rapidly expanded the size of our Company. For example, we increased our footprint by 39% from approximately 1,240,000 NRSF at the beginning of 2011 to approximately 1,716,000 NRSF by December 31, 2012. Our growth may significantly strain our management, operational and financial resources and systems. An inability to manage our growth effectively or the increased strain on our management, our resources and systems could materially adversely affect our business, financial condition and results of operations.

To fund our growth strategy and refinance our indebtedness, we depend on external sources of capital, which may not be available to us on commercially reasonable terms or at all.

In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code of 1986 (the Code), among other things, to distribute at least 90% of our REIT taxable income annually, determined without regard to the dividends paid deduction and excluding any net capital gains. Even if we maintain our qualification as a REIT, we will be subject to U.S. federal income tax at regular corporate rates to the extent that we distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gains, as well as U.S. federal income tax at regular corporate rates for income recognized by our taxable REIT subsidiaries (TRS). Because of these distribution requirements, we will likely not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, we intend to rely on third-party capital markets sources for debt or equity financing to fund our growth strategy. In addition, we may need third-party capital markets sources to refinance our indebtedness at maturity. Continued or increased turbulence in the U.S., European and other international

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financial markets and economies may adversely affect our ability to replace or renew maturing liabilities on a timely basis, access the capital markets to meet liquidity and capital expenditure requirements and may result in adverse effects on our business, financial condition and results of operations. As such, we may not be able to obtain the financing on favorable terms or at all. Our access to third-party sources of capital also depends, in part, on:

- the market s perception of our growth potential;
- our then-current debt levels;
- our historical and expected future earnings, cash flow and cash distributions; and
- the market price per share of our common stock.

In addition, our ability to access additional capital may be limited by the terms of our then-existing indebtedness which may restrict our incurrence of additional debt. If we cannot obtain capital when needed, we may not be able to acquire or develop properties when strategic opportunities arise or refinance our debt at maturity, which could adversely affect our business, financial condition and results of operations.

Level of indebtedness and debt service obligations could have adverse effects on our business.

As of December 31, 2012, we had a total combined indebtedness, including capital lease obligations, of approximately $557 million and other financing arrangements of $61 million. We also currently have the ability to borrow up to an additional $225 million under our revolving credit facility, subject to satisfying certain financial tests. There are no limits on the amount of indebtedness we may incur other than limits contained in the senior notes indenture, our revolving credit facility, future agreements that we may enter into or as may be set forth in any policy limiting the amount of indebtedness we may incur adopted by our board of directors. A substantial level of indebtedness could have adverse consequences for our business, financial condition and results of operations because it could, among other things:

- require us to dedicate a substantial portion of our cash flow from operations to make principal and interest payments on our indebtedness, thereby reducing our cash flow available to fund working capital, capital expenditures and other general corporate purposes, including to make distributions on our common stock as currently contemplated or necessary to maintain our qualification as a REIT;
- require us to maintain certain debt and coverage and other financial ratios at specified levels, thereby reducing our financial flexibility;
- make it more difficult for us to satisfy our financial obligations, including borrowings under our revolving credit facility;
- increase our vulnerability to general adverse economic and industry conditions;
- expose us to increases in interest rates for our variable rate debt;
- limit our ability to borrow additional funds on favorable terms or at all to expand our business or ease liquidity constraints;

limit our ability to refinance all or a portion of our indebtedness on or before maturity on the same or more favorable terms or at all;

limit our flexibility in planning for, or reacting to, changes in our business and our industry;

place us at a competitive disadvantage relative to competitors that have less indebtedness;

increase our risk of property losses as the result of foreclosure actions initiated by lenders in the event we should incur mortgage or other secured debt obligations; and

require us to dispose of one or more of our properties at disadvantageous prices or raise equity that may dilute the value of our common stock in order to service our indebtedness or to raise funds to pay such indebtedness at maturity.

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The agreements governing our indebtedness place restrictions on us and our subsidiaries, reducing operational flexibility and creating default risks.

The agreements governing our indebtedness contain covenants that place restrictions on us and our subsidiaries. These covenants restrict, among other things, our and our subsidiaries ability to:

- merge, consolidate or transfer all or substantially all of our or our subsidiaries assets;
- incur additional debt or issue preferred stock;
- make certain investments or acquisitions;
- create liens on our or our subsidiaries assets;
- sell assets;
- make capital expenditures;
- make distributions on or repurchase our stock;
- enter into transactions with affiliates;
- issue or sell stock of our subsidiaries; and
- change the nature of our business.

These covenants could impair our ability to grow our business, take advantage of attractive business opportunities or successfully compete. In addition, our revolving credit facility requires us to maintain specified financial ratios and satisfy financial condition tests. The indenture governing our senior notes also requires our operating partnership and its subsidiaries to maintain total unencumbered assets of at least 150% of their unsecured debt on a consolidated basis, provided that for the purposes of such calculation our revolving credit facility shall be treated as unsecured indebtedness. Our ability to comply with these ratios or tests may be affected by events beyond our control, including prevailing economic, financial and industry conditions. A breach of any of these covenants or covenants under any other agreements governing our indebtedness could result in an event of default. Cross-default provisions in our debt agreements could cause an event of default under one debt agreement to trigger an event of default under our other debt agreements. Upon the occurrence of an event of default under any of our debt agreements, the lenders or holders thereof could elect to declare all outstanding debt under such agreements to be immediately due and payable. If we were unable to repay or refinance the accelerated debt, the lenders or holders, as applicable could proceed against any assets pledged to secure that debt, including foreclosing on or requiring the sale of our data centers, and our assets may not be sufficient to repay such debt in full.

We may become subject to litigation or threatened litigation which may divert management time and attention, require us to pay damages and expenses or restrict the operation of our business.

We may become subject to disputes with commercial parties with whom we maintain relationships or other parties with whom we do business, including as a result of any breach in our security systems or downtime in our critical electrical and cooling systems. Any such dispute could result in litigation between us and the other parties. Whether or not any dispute actually proceeds to litigation, we may be required to devote significant management time and attention to its resolution (through litigation, settlement or otherwise), which would detract from our management s ability to focus on our business. Any such resolution could involve the payment of damages or expenses by us, which may be significant. In addition, any such resolution could involve our agreement with terms that restrict the operation of our business.

We could incur significant costs related to environmental matters.

We are subject to laws and regulations relating to the protection of the environment, including those governing the management and disposal of hazardous materials, the cleanup of contaminated sites and health and safety matters. We could incur significant costs, including fines, penalties and other sanctions, cleanup costs and

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third-party claims for property damages or personal injuries, as a result of violations of or liabilities under environmental laws and regulations. Some environmental laws impose liability on current owners or operators of property regardless of fault or the lawfulness of past disposal activities. For example, many of our sites contain above ground fuel storage tanks and, in some cases, currently contain or formerly contained underground fuel storage tanks, for back-up generator use. Some of our sites also have a history of previous commercial operations. We also may acquire or develop sites in the future with unknown environmental conditions from historical operations. Although we are not aware of any sites at which we currently have material remedial obligations, the imposition of remedial obligations as a result of spills or the discovery of contaminants in the future could result in significant additional costs. We also could incur significant costs complying with current environmental laws or regulations or those that are promulgated in the future.

We may be adversely affected by regulations related to climate change.

If we, or other companies with which we do business, become subject to existing or future laws and regulations related to climate change, our business could be impacted adversely. For example, in the normal course of business, we enter into agreements with providers of electric power for our data centers, and the costs of electric power comprise a significant component of our operating expenses. Changes in regulations that affect electric power providers, such as regulations related to the control of greenhouse gas emissions or other climate change related matters, could adversely affect the costs of electric power and increase our operating costs and may adversely affect our business, financial condition and results of operations or those of our customers.

We may be subject to unknown or contingent liabilities related to properties or businesses that we acquire for which we may have limited or no recourse against the sellers.

Assets and entities that we have acquired or may acquire in the future, including the properties contributed to us by CBI, may be subject to unknown or contingent liabilities for which we may have limited or no recourse against the sellers or CBI. Unknown or contingent liabilities might include liabilities for clean-up or remediation of environmental conditions, claims of customers, vendors or other persons dealing with the acquired entities, tax liabilities and other liabilities whether incurred in the ordinary course of business or otherwise. In the future we may enter into transactions with limited representations and warranties or with representations and warranties that do not survive the closing of the transactions, in which event we would have no or limited recourse against the sellers of such properties. While we usually require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such indemnification (including the indemnification by CBI) is often limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses.

As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that we may incur with respect to liabilities associated with acquired properties and entities may exceed our expectations, which may adversely affect our business, financial condition and results of operations. Finally, indemnification agreements between us and the sellers typically provide that the sellers will retain certain specified liabilities relating to the assets and entities acquired by us. While the sellers are generally contractually obligated to pay all losses and other expenses relating to such retained liabilities, there can be no guarantee that such arrangements will not require us to incur losses or other expenses as well.

We have no operating history as a REIT or an independent public company, and our inexperience may impede our ability to successfully manage our business or implement effective internal controls.

We have no operating history as a REIT. Similarly, while we formerly operated as a subsidiary of a public company, and key members of our management team have served in leadership roles of public companies, we have no operating history as an independent public company. We cannot assure you that our past experience will be sufficient to successfully operate our company as a REIT or an independent public company. Even though we are an emerging growth company as defined in the Jumpstart Our Business Startups Act of 2012 (the JOBS Act) and therefore may take advantage of various exemptions to public reporting requirements (see We are

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an emerging growth company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors), we will still be required to implement substantial control systems and procedures in order to maintain our qualification as a REIT, satisfy our periodic and current reporting requirements under applicable SEC regulations and comply with the Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act), the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) and NASDAQ Global Select Market listing standards. As a result, we will incur significant legal, accounting and other expenses that we have not previously incurred, particularly after we are no longer an emerging growth company, and our management and other personnel will need to devote a substantial amount of time to comply with these rules and regulations and establish the corporate infrastructure and controls demanded of a publicly traded REIT. These costs and time commitments could be substantially more than we currently expect. Therefore, our historical financial statements may not be indicative of our future costs and performance as a stand-alone company. If our finance and accounting organization is unable for any reason to respond adequately to the increased demands that will result from being an independent public company, the quality and timeliness of our financial reporting may suffer, and we could experience significant deficiencies or material weaknesses in our disclosure controls and procedures or our internal control over financial reporting.

In our Form S-11 filings we identified a significant deficiency, as defined in the U.S. Public Company Accounting Oversight Board Standard AU Section 325, related to our internal control over financial reporting. This significant deficiency related to IT controls over our change management process and logical access to our general ledger system. We took measures to remediate the significant deficiency. As of December 31, 2012, these measures have been fully implemented, and we have concluded that these deficiencies have been fully remediated.

An inability to establish effective disclosure controls and procedures and internal control over financial reporting or remediate deficiencies could cause us to fail to meet our reporting obligations under the Securities Exchange Act of 1934, as amended (the Exchange Act), or result in material weaknesses, material misstatements or omissions in our Exchange Act reports, any of which could cause investors to lose confidence in our Company and could adversely affect our business, financial condition and results of operations and the trading price of our common stock.

We face significant competition and may be unable to lease vacant space, renew existing leases or re-lease space as leases expire, which may adversely affect our business, financial condition and results of operations.

We compete with numerous developers, owners and operators of technology-related real estate and data centers, many of which own properties similar to ours in the same markets, as well as various other public and privately held companies that may provide data center colocation as part of a more expansive managed services offering, and local developers. In addition, we may face competition from new entrants into the data center market. Some of our competitors may have significant advantages over us, including greater name recognition, longer operating histories, lower operating costs, pre-existing relationships with current or potential customers, greater financial, marketing and other resources, and access to less expensive power. These advantages could allow our competitors to respond more quickly to strategic opportunities or changes in our industries or markets. If our competitors offer data center space that our existing or potential customers perceive to be superior to ours based on numerous factors, including power, security considerations, location or network connectivity, or if they offer rental rates below our or current market rates, we may lose existing or potential customers, incur costs to improve our properties or be forced to reduce our rental rates.

The loss of any of our key personnel, including our executive officers or key sales associates, could adversely affect our business, financial condition and results of operations.

Our success will continue to depend to a significant extent on our executive officers and key sales associates. Each of our executive officers has a national or regional industry reputation that attracts business and investment opportunities and assists us in negotiations with lenders, existing and potential customers and industry personnel. The loss of key sales associates could hinder our ability to continue to benefit from existing and potential customers. We cannot provide any assurance that we will be able to retain our current executive officers or key sales associates. The loss of any of these individuals could adversely affect our business, financial condition and results of operations.

Our data center infrastructure may become obsolete, and we may not be able to upgrade our power and cooling systems cost-effectively, or at all.

The markets for the data centers we own and operate, as well as the industries in which our customers operate, are characterized by rapidly changing technology, evolving industry standards, frequent new service introductions, shifting distribution channels and changing customer demands. Our data center infrastructure may become obsolete due to the development of new systems to deliver power to or eliminate heat from the servers that we house. Additionally, our data center infrastructure could become obsolete as a result of the development of new server technology that does not require the levels of critical load and heat removal that our facilities are designed to provide and could be run less expensively on a different platform. In addition, our power and cooling systems are difficult and expensive to upgrade. Accordingly, we may not be able to efficiently upgrade or change these systems to meet new demands without incurring significant costs that we may not be able to pass on to our customers. The obsolescence of our power and cooling systems could have a material negative impact on our business, financial condition and results of operations.

Declining real estate valuations and impairment charges could adversely affect our earnings and financial condition.

We review each of our properties for indicators that its carrying amount may not be recoverable. Examples of such indicators may include a significant decrease in market price, a significant adverse change in the extent or manner the property is being used or in its physical condition, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development, or a history of operating or cash flow losses. When such impairment indicators exist, we review an estimate of the future undiscounted net cash flows (excluding interest charges) expected to result from the real estate investment s use and eventual disposition and compare to the carrying value of the property. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our future undiscounted net cash flow evaluation indicates that we are unable to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. These losses have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. A worsening real estate market may cause us to re-evaluate the assumptions used in our impairment analysis. Impairment charges could adversely affect our business, financial condition and results of operations.

We are an emerging growth company, and we cannot be certain if the reduced reporting requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company as defined in the JOBS Act. We will remain an emerging growth company until the earliest to occur of (i) the last day of the fiscal year during which our total annual revenue equals or exceeds $1 billion (subject to adjustment for inflation), (ii) the last day of the fiscal year following the fifth anniversary of our initial offering, (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt or (iv) the date on which we are deemed to be a large accelerated filer under the Exchange Act. We may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and

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proxy statements and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be adversely affected and more volatile.

Risks Related to the Real Estate Industry

Our performance and value are subject to risks associated with real estate assets and with the real estate industry.

Our ability to make expected distributions to our stockholders depends on our ability to generate revenues in excess of expenses, scheduled principal payments on debt and capital expenditure requirements. Events and conditions generally applicable to owners and operators of real property that are beyond our control may decrease cash available for distribution to you and the value of our properties. These events include:

- local oversupply, increased competition or reduction in demand for technology-related space;
- inability to collect rent from customers;
- vacancies or our inability to rent space on favorable terms;
- inability to finance property development and acquisitions on favorable terms;
- increased operating costs to the extent not paid for by our customers;
- costs of complying with changes in governmental regulations;
- the relative illiquidity of real estate investments, especially the specialized real estate properties that we hold and seek to acquire and develop; and
- changing submarket demographics.

Illiquidity of real estate investments, particularly our data centers, could significantly impede our ability to respond to adverse changes in the performance of our properties, which could harm our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to adverse changes in the real estate market or in the performance of such properties may be limited, thus harming our financial condition. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in national and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;

- changes in governmental laws and regulations, fiscal policies and zoning ordinances and costs of compliance therewith;

- the ongoing cost of capital improvements that are not passed on to our customers, particularly in older structures;

- changes in operating expenses; and

- civil unrest, acts of war, terrorism and natural disasters, including fires, earthquakes, tropical storms, hurricanes, and floods, which may result in uninsured and underinsured losses.

The risks associated with the illiquidity of real estate investments are even greater for our data center properties. Our data centers are highly specialized real estate assets containing extensive electrical and mechanical systems that are uniquely designed to house and maintain our customers equipment, and, as such,

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have little, if any, traditional office space. As a result, most of our data centers are not suited for use by customers as anything other than as data centers and major renovations and expenditures would be required in order for us to re-lease data center space for more traditional commercial or industrial uses, or for us to sell a property to a buyer for use other than as a data center.

Risks Related to Our Organizational Structure

Our rights and the rights of our stockholders to take action against our directors and officers are limited.

Maryland law provides that a director has no liability in the capacity as a director if he or she performs his or her duties in good faith, in a manner he or she reasonably believes to be in the company s best interests and with the care that an ordinarily prudent person in a like position would use under similar circumstances. As permitted by the Maryland General Corporation Law (MGCL), our charter limits the liability of our directors and officers to the company and our stockholders for money damages, except for liability resulting from:

- actual receipt of an improper benefit or profit in money, property or services; or
- a final judgment based upon a finding of active and deliberate dishonesty by the director or officer that was material to the cause of action adjudicated.

In addition, our charter authorizes us to obligate the company, and our bylaws require us, to indemnify our directors and officers for actions taken by them in those capacities and to pay or reimburse their reasonable expenses in advance of final disposition of a proceeding to the maximum extent permitted by Maryland law, and we have entered into indemnification agreements with our directors and expect to do so with certain of our executive officers. As a result, we and our stockholders may have more limited rights against our directors and officers than might otherwise exist under common law. Accordingly, in the event that actions taken by any of our directors or officers are immune or exculpated from, or indemnified against, liability but which impede our performance, our stockholders ability to recover damages from that director or officer will be limited.

Conflicts of interest exist or could arise in the future with our operating partnership or its partners.

Conflicts of interest exist or could arise in the future as a result of the relationships between us and our affiliates, on the one hand, and our operating partnership or any partner thereof, on the other. Our directors and officers have duties to our company under applicable Maryland law in connection with their direction of the management of our company. At the same time, we, as trustee, have duties to CyrusOne GP which, in turn, as general partner of our operating partnership, has duties to our operating partnership and to the limited partners under Maryland law in connection with the management of our operating partnership. Under Maryland law, the general partner of a Maryland limited partnership has fiduciary duties of care and loyalty, and an obligation of good faith, to the partnership and its partners. While these duties and obligations cannot be eliminated entirely in the limited partnership agreement, Maryland law permits the parties to a limited partnership agreement to specify certain types or categories of activities that do not violate the general partner s duty of loyalty and to modify the duty of care and obligation of good faith, so long as such modifications are not unreasonable. These duties as general partner of our operating partnership to the partnership and its partners may come into conflict with the interests of our company. Under the partnership agreement of our operating partnership, the limited partners of our operating partnership will expressly agree that the general partner of our operating partnership is acting for the benefit of the operating partnership, the limited partners of our operating partnership and our stockholders, collectively. The general partner is under no obligation to give priority to the separate interests of the limited partners in deciding whether to cause our operating partnership to take or decline to take any actions. If there is a conflict between the interests of us or our stockholders, on the one hand, and the interests of the limited partners of our operating partnership, on the other, the partnership agreement of our operating partnership provides that any action or failure to act by the general partner that gives priority to the separate interests of us or our stockholders that does not result in a violation of the contractual rights of the limited partners of our operating partnership under the partnership agreement will not violate the duties that the general partner owes to our operating partnership and its partners.

Additionally, the partnership agreement of our operating partnership expressly limits our liability by providing that we and our directors, officers, agents and employees, will not be liable or accountable to our operating partnership or its partners for money damages. In addition, our operating partnership is required to indemnify us, our directors, officers and employees, the general partner and its trustees, officers and employees, employees of our operating partnership and any other persons whom the general partner may designate from and against any and all claims arising from operations of our operating partnership in which any indemnitee may be involved, or is threatened to be involved, as a party or otherwise unless it is established that the act or omission of the indemnitee constituted fraud, intentional harm or gross negligence on the part of the indemnitee, the claim is brought by the indemnitee (other than to enforce the indemnitee s rights to indemnification or advance of expenses) or the indemnitee is found to be liable to our operating partnership, and then only with respect to each such claim.

No reported decision of a Maryland appellate court has interpreted provisions that are similar to the provisions of the partnership agreement of our operating partnership that modify the fiduciary duties of the general partner of our operating partnership, and we have not obtained an opinion of counsel regarding the enforceability of the provisions of the partnership agreement that purport to waive or modify the fiduciary duties and obligations of the general partner of our operating partnership.

As of January 24, 2013 CBI owned 8.6% of our outstanding shares of common stock and a majority of our operating partnership units and has the right to nominate three directors. CBI s interests may differ from or conflict with the interests of our other stockholders.

As of January 24, 2013 CBI owned 8.6% of our outstanding shares of common stock and 66.1% of our operating partnerships outstanding operating partnership units, which, if exchanged for our common stock, would represent an additional approximately 60.4% interest in our common stock. The ownership of 8.6 % of our outstanding shares of common stock and, if acquired, the ownership of additional shares of our common stock could permit CBI to have a significant impact on the result of any vote of our stockholders. In fact, if CBI were to acquire more than 50% of our outstanding shares of common stock it could elect our entire board of directors and approve any matter submitted to our stockholders. In general, CBI s interest in our operating partnership will entitle it to share in cash distributions from, and in the profits and losses of, our operating partnership in proportion to its percentage ownership. In addition, the operating partnership agreement of our operating partnership grants CBI the right to nominate (i) if there is an even number of directors, 50% of the number of directors minus one; or (ii) if there is an odd number of directors, 50% of the number of directors minus 0.5. If, in connection with a redemption request, a significant portion of CBI s operating partnership units are exchanged for shares of our common stock, CBI could have the ability to elect a majority of our directors.

Pursuant to the terms of the operating partnership agreement of our operating partnership, subject to certain exceptions, as long as CBI and entities controlled by CBI own at least 20% of the outstanding operating partnership units of our operating partnership, CBI s consent will be required in order for the general partner to undertake certain actions, including: amending or terminating the partnership agreement of our operating partnership, transferring its general partnership interest or admitting an additional or successor general partner, withdrawing as a general partner, approving on behalf of the operating partnership a general assignment for the benefit of creditors or instituting a proceeding for bankruptcy by our operating partnership, or approving on behalf of the operating partnership a merger, consolidation or certain other change of control transactions.

As a result, CBI has the ability to exercise significant influence over us, including with respect to decisions relating to our capital structure, issuing additional shares of our common stock or other equity securities, making distributions, incurring additional debt, making acquisitions, selling properties or other assets, merging with other companies and undertaking other extraordinary transactions. In any of these matters, the interests of CBI may differ from or conflict with the interests of our other stockholders.

Our Chairman is the former President and Chief Executive Officer and is the current Vice Chairman of the Board of Directors of CBI. In addition, some of our directors and executive officers own common stock

of CBI, options and other instruments, the value of which is related to the value of common stock of CBI, which could create, or appear to create, conflicts of interest that could result in our not acting on opportunities on which we would otherwise act.

Our Chairman is the former President and Chief Executive Officer and is the current Vice Chairman of the board of directors of CBI. In addition, some of our directors and executive officers own a substantial amount of CBI common stock, options and other instruments, the value of which is related to the value of common stock of CBI. The direct and indirect interests of our directors and executive officers in common stock of CBI, and us, could create, or appear to create, conflicts of interest with respect to decisions involving both us and CBI that could have different implications for CBI than they do for us. These decisions could, for example, relate to:

- disagreement over corporate opportunities;
- competition between CBI and us;
- management stock ownership;
- employee retention or recruiting;
- our distribution policy; and
- the services and arrangements from which we benefit as a result of our relationship with CBI.

Potential conflicts of interest could also arise if we enter into any new commercial arrangements with CBI in the future, or if CBI decides to compete with us in any of our product categories. Our directors and executive officers who have interests in both CBI and us may also face conflicts of interest with regard to the allocation of their time between CBI and us.

As a result of any such conflicts of interest, we may be precluded from certain opportunities on which we would otherwise act, including growth opportunities, which may negatively affect our business, financial condition and results of operations.

Our charter and bylaws and the partnership agreement of our operating partnership contain provisions that may delay, defer or prevent an acquisition of our common stock or a change in control.

Our charter and bylaws contain a number of provisions, the exercise or existence of which could delay, defer or prevent a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interests, including the following:

- ***Our Charter Contains Restrictions on the Ownership and Transfer of Our Stock***. In order for us to qualify as a REIT, no more than 50% of the value of outstanding shares of our stock may be owned, beneficially or constructively, by five or fewer individuals at any time during the last half of each taxable year other than the first year for which we elect to be taxed as a REIT. Subject to certain exceptions, our charter prohibits any stockholder from owning beneficially or constructively more than 9.8% in value or in number of shares, whichever is more restrictive, of the outstanding shares of our common stock, or 9.8% in value of the aggregate of the outstanding shares of all classes or series of our stock. We refer to these restrictions collectively as the ownership limits. The constructive ownership rules under the Code are complex and may cause the outstanding stock owned by a group of related individuals or entities to be deemed to be constructively owned by one individual or entity. As a result, the acquisition of less than 9.8% of our outstanding common stock or the outstanding shares of all classes or series of our stock by an individual or entity could cause that individual or entity or another individual or entity to own constructively in excess of the relevant ownership limits. Our charter also prohibits any person from owning shares of our stock that would result in our being closely held under Section 856(h) of the Code or otherwise cause us to fail to qualify as a REIT. Any attempt to own or transfer shares of our common stock or of any of our other capital stock in violation of these restrictions may result in the shares being automatically transferred to a charitable trust or may be void.

These ownership limits may prevent a third-party from acquiring control of us if our board of directors does not grant an exemption from the ownership limits, even if our stockholders believe the change in control is in their best interests. Our board of directors has granted CBI exemptions from the ownership limits applicable to other holders of our common stock, subject to certain initial and ongoing conditions designed to protect our status as a REIT, including the receipt of an IRS private letter ruling or an opinion of counsel from a nationally recognized law firm that the exercise of any such exemption should not cause any rent payable by CBI to jeopardize our REIT status.

Our Board of Directors Has the Power to Cause Us to Issue Additional Shares of Our Stock without Stockholder Approval. Our charter authorizes us to issue additional authorized but unissued shares of common or preferred stock. In addition, our board of directors may, without stockholder approval, amend our charter to increase the aggregate number of our shares of stock or the number of shares of stock of any class or series that we have authority to issue and classify or reclassify any unissued shares of common or preferred stock and set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a series of shares of common or preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our shares of common stock or otherwise be in the best interests of our stockholders.

Provisions in the partnership agreement of our operating partnership also may delay, or make more difficult, a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interests. These provisions include, among others:

redemption rights of CBI;

rights of certain holders of operating partnership units of our operating partnership, including CBI and its controlled entities, to approve certain change of control transactions involving us, which rights apply at any time that CBI and its controlled entities own at least 20% of the outstanding shares of our common stock (assuming all outstanding operating partnership units, excluding operating partnership units held by us or the general partner, have been exchanged for shares of our common stock);

transfer restrictions on operating partnership units; and

the right of CyrusOne GP, as general partner, in some cases, to amend the partnership agreement of our operating partnership and to cause the operating partnership to issue partnership interests with terms that could delay, defer or prevent a merger or other change of control of us or our operating partnership without the consent of the limited partners.

Certain provisions of Maryland law may limit the ability of a third-party to acquire control of us.

Certain provisions of the MGCL may have the effect of inhibiting a third-party from acquiring us or of impeding a change of control under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

business combination provisions that, subject to limitations, prohibit certain business combinations between an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding shares of voting stock or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation) or an affiliate of any interested stockholder and us for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter imposes two super-majority stockholder voting requirements on these combinations; and

control share provisions that provide that holders of control shares of our company (defined as voting shares of stock that, if aggregated with all other shares of stock owned or controlled by the acquirer, would entitle the acquirer to exercise one of three increasing ranges of voting power in

electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of issued and outstanding control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all of the votes entitled to be cast on the matter, excluding all interested shares.

Pursuant to the Maryland Business Combination Act, our board of directors has by resolution exempted from the provisions of the Maryland Business Combination Act business combinations (i) between CBI or its affiliates and us and (ii) between any other person and us, provided that such business combination is first approved by our board of directors (including a majority of our directors who are not affiliates or associates of such person). Our bylaws contain a provision exempting from the Maryland Control Share Acquisition Act any and all acquisitions by any person of shares of our stock. There can be no assurance that these exemptions or resolutions will not be amended or eliminated at any time in the future.

Additionally, Title 3, Subtitle 8 of the MGCL permits our board of directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, such as a classified board, some of which we do not have.

We assumed liabilities in connection with the formation transactions, including unknown liabilities.

As part of the formation transactions, we assumed existing liabilities of the data center business of CBI, including, but not limited to, liabilities in connection with our properties, some of which may be unknown or unquantifiable. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of tenants, vendors or other persons dealing with the entities, tax liabilities, and accrued but unpaid liabilities whether incurred in the ordinary course of business or otherwise. In connection with the formation transactions, the Contributors have made certain limited representations and warranties to us regarding potential material adverse impacts on the properties and entities acquired by us in the formation transactions and agreed to indemnify us with respect to claims for breaches of those representations and warranties brought by us within one year of the completion of the formation transactions. However, such indemnification generally is limited to 10% of the consideration paid to CBI and its affiliates in the formation transactions and, with respect to issues at any particular property, 10% of the consideration paid to CBI and its affiliates with respect to such property, and is subject to a 1% deductible. Accordingly, such indemnification may not be sufficient to cover all liabilities assumed, and we are not entitled to indemnification from any other sources in connection with the formation transactions. In addition, because many liabilities, including tax liabilities, may not be identified within such period, we may have no recourse against the Contributors for these liabilities.

Risks Related to Status as a REIT

If we do not qualify as a REIT or we fail to remain qualified as a REIT, we will be subject to U.S. federal income tax as a regular corporation and could face a substantial tax liability, which would reduce the amount of cash available for distribution to our stockholders.

We intend to continue to operate in a manner that will allow us to qualify as a REIT commencing with our taxable year ending December 31, 2013. We have received an opinion of our special REIT tax counsel (Special Tax Counsel), with respect to our qualification as a REIT in connection with our initial public offering. Investors should be aware, however, that opinions of counsel are not binding on the IRS or any court. The opinion of Special Tax Counsel represents only the view of Special Tax Counsel based on its review and analysis of existing law and on certain representations as to factual matters and covenants made by us, including representations relating to the values of our assets and the sources of our income. The opinion is expressed as of the date issued. Special Tax Counsel will have no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of Special Tax Counsel and our qualification as a REIT will

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depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis, the results of which will not be monitored by Special Tax Counsel. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we will not obtain independent appraisals.

We have received a private letter ruling from the IRS with respect to certain issues relevant to our qualification as a REIT. In general, the ruling provides, subject to the terms and conditions contained therein, that certain structural components of our properties (e.g., relating to the provision of electricity, heating, ventilation and air conditioning, regulation of humidity, security and fire protection, and telecommunication services) and intangible assets, and certain services that we or CBI may provide, directly or through subsidiaries, to our tenants, will not adversely affect our qualification as a REIT. Although we may generally rely upon the ruling, no assurance can be given that the IRS will not challenge our qualification as a REIT on the basis of other issues or facts outside the scope of the ruling.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to U.S. federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and dividends paid to our stockholders would not be deductible by us in computing our taxable income. Any resulting corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our common stock. Unless we were entitled to relief under certain Code provisions, we also would be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year in which we failed to qualify as a REIT.

Qualifying as a REIT involves highly technical and complex provisions of the Code.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. In addition, our ability to satisfy the requirements to qualify as a REIT may depend in part on the actions of third parties over which we have no control or only limited influence, including in cases where we own an equity interest in an entity that is classified as a partnership for U.S. federal income tax purposes.

Dividends payable by REITs do not qualify for the reduced tax rates available for some dividends.

Income from qualified dividends payable to U.S. stockholders that are individuals, trusts and estates is generally subject to tax at preferential rates. Dividends payable by REITs, however, generally are not eligible for the preferential rates. Although these rules do not adversely affect the taxation of REITs, the more favorable rates applicable to regular corporate qualified dividends, could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the stock of REITs, including our common stock.

REIT distribution requirements could adversely affect our ability to execute our business plan.

We generally must distribute annually at least 90% of our REIT taxable income, determined without regard to the dividends paid deduction and excluding any net capital gains, in order for us to qualify as a REIT (assuming that certain other requirements are also satisfied) so that U.S. federal corporate income tax does not apply to earnings that we distribute. To the extent that we satisfy this distribution requirement and qualify for taxation as a REIT but distribute less than 100% of our REIT taxable income, determined without regard to the dividends paid deduction and including any net capital gains, we will be subject to U.S. federal corporate income tax on our undistributed net taxable income. In addition, we will be subject to a 4% nondeductible excise tax if

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the actual amount that we distribute to our stockholders in a calendar year is less than a minimum amount specified under U.S. federal tax laws. We intend to make distributions to our stockholders to comply with the REIT requirements of the Code.

From time to time, we may generate taxable income greater than our cash flow as a result of differences in timing between the recognition of taxable income and the actual receipt of cash or the effect of nondeductible capital expenditures, the creation of reserves or required debt or amortization payments. If we do not have other funds available in these situations, we could be required to borrow funds on unfavorable terms, sell assets at disadvantageous prices or distribute amounts that would otherwise be invested in future acquisitions to make distributions sufficient to enable us to pay out enough of our taxable income to satisfy the REIT distribution requirement and to avoid corporate income tax and the 4% excise tax in a particular year. These alternatives could increase our costs or reduce our equity. Thus, compliance with the REIT requirements may hinder our ability to grow, which could adversely affect the value of our common stock.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income and assets, including taxes on any undistributed income and state or local income, property and transfer taxes. For example, in order to meet the REIT qualification requirements, we may hold some of our assets or conduct certain of our activities through one or more TRSs or other subsidiary corporations that will be subject to federal, state, and local corporate-level income taxes as regular C corporations. In addition, we may incur a 100% excise tax on transactions with a TRS if they are not conducted on an arm s length basis. Any of these taxes would decrease cash available for distribution to our stockholders.

Complying with REIT requirements may cause us to liquidate or forgo otherwise attractive opportunities.

To qualify as a REIT, we must ensure that, at the end of each calendar quarter, at least 75% of the value of our assets consists of cash, cash items, government securities and real estate assets (as defined in the Code), including certain mortgage loans and securities. The remainder of our investments (other than government securities, qualified real estate assets and securities issued by a TRS) generally cannot include more than 10% of the outstanding voting securities of any one issuer or more than 10% of the total value of the outstanding securities of any one issuer. In addition, in general, no more than 5% of the value of our total assets (other than government securities, qualified real estate assets and securities issued by a TRS) can consist of the securities of any one issuer, and no more than 25% of the value of our total assets can be represented by securities of one or more TRSs. If we fail to comply with these requirements at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. As a result, we may be required to liquidate or forgo otherwise attractive investments. These actions could have the effect of reducing our income and amounts available for distribution to our stockholders.

In addition to the asset tests set forth above, to continue to qualify as a REIT we must continually satisfy tests concerning, among other things, the sources of our income, the amounts we distribute to our stockholders and the ownership of our stock. We may be unable to pursue investments that would be otherwise advantageous to us in order to satisfy the source-of-income or asset-diversification requirements for qualifying as a REIT. Thus, compliance with the REIT requirements may hinder our ability to make certain attractive investments.

Complying with REIT requirements may limit our ability to hedge effectively and may cause us to incur tax liabilities.

The REIT provisions of the Code substantially limit our ability to hedge our assets and liabilities. Any income from a hedging transaction that we enter into to manage risk of interest rate changes with respect to borrowings made or to be made to acquire or carry real estate assets does not constitute gross income for purposes of the 75% or 95% gross income tests that apply to REITs, provided that certain identification requirements are met. To the extent that we enter into other types of hedging transactions or fail to properly identify such transaction as a hedge, the income is likely to be treated as non-qualifying income for purposes of both of the gross income tests. As a result of these rules, we may be required to limit our use of advantageous hedging techniques or implement those hedges through a TRS. This could increase the cost of our hedging activities because our TRS may be subject to tax on gains or expose us to greater risks associated with changes in interest rates than we would otherwise want to bear. In addition, losses in our TRS will generally not provide any tax benefit, except that such losses could theoretically be carried back or forward against past or future taxable income in the TRS.

CBI may in the future acquire a significant percentage of our stock, which may result in a penalty tax if it causes certain rents we receive to be non-qualifying rents for purposes of the REIT requirements.

As described above, as of January 24, 2013, CBI owned approximately 8.6% of our common stock and a majority of our operating partnership s operating partnership units. In certain circumstances, CBI may be able to exchange those units for shares of our common stock, and any such exchange may result in CBI owning a significant percentage of our common stock. We have granted CBI a waiver of the ownership restrictions contained in our charter, subject to certain initial and ongoing conditions designed to protect our status as a REIT, including the receipt of an IRS private letter ruling or an opinion of counsel from a nationally recognized law firm that the exercise of any such exemption should not cause any rent payable by CBI to jeopardize our REIT status. Such an opinion of counsel or a private letter ruling will be based on certain facts and assumptions, which, if incorrect, could result in certain rents we receive being treated as non-qualifying income for purposes of the REIT requirements. An opinion of counsel is not binding on the IRS or a court, so there can be no certainty that the IRS will not challenge the conclusions reflected in the opinion or that a court would not sustain such a challenge. Even if we have reasonable cause for a failure to meet the REIT income tests as a result of receiving non-qualifying rental income, we would nonetheless be required to pay a penalty tax in order to retain our REIT status.

Legislative or other actions affecting REITs could have a negative effect on us.

The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury (the Treasury). Changes to the tax laws or interpretations thereof, with or without retroactive application, could materially and adversely affect our investors or us. We cannot predict how changes in the tax laws might affect our investors or us. New legislation, Treasury regulations, administrative interpretations or court decisions could significantly and negatively affect our ability to qualify as a REIT or the U.S. federal income tax consequences to our investors and us of such qualification.

Risks Related to our Debt and Equity Securities

Our cash available for distribution to stockholders may not be sufficient to make distributions at expected levels, and we may need to borrow in order to make such distributions; consequently, we may not be able to make such distributions in full.

If cash available for distribution generated by our assets is less than our estimate or if such cash available for distribution decreases in future periods from expected levels, our inability to make the expected distributions could result in a decrease in the market price of our common stock. Distributions made by us will be authorized and determined by our board of directors in its sole discretion out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law and our capital requirements. We may not be able to make or sustain distributions in the future. To the extent that we decide to make distributions in excess of our current and accumulated earnings and profits, such distributions would generally be considered a return of capital for U.S. federal income tax purposes to the extent of the holder s adjusted tax basis

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in their shares. A return of capital is not taxable, but it has the effect of reducing the holder s adjusted tax basis in its investment. To the extent that distributions exceed the adjusted tax basis of a holder s shares, they will be treated as gain from the sale or exchange of such stock. If we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been.

Future offerings of debt, which would be senior to our common stock upon liquidation, and/or preferred equity securities which may be senior to our common stock for purposes of distributions or upon liquidation, may adversely affect the market price of our common stock.

In the future, we may attempt to increase our capital resources by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of our debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Our preferred stock, if issued, could have a preference on liquidating distributions or a preference on distribution payments that could limit our ability to make a distribution to the holders of our common stock. Since our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their stock holdings in us.

Increases in market interest rates may cause potential investors to seek higher dividend yields and therefore reduce demand for our common stock and result in a decline in our stock price.

One of the factors that may influence the price of our common stock is the dividend yield on our common stock (the amount of dividends as a percentage of the price of our common stock) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of our common stock to expect a higher dividend yield, which we may be unable or choose not to provide. Higher interest rates would likely increase our borrowing costs and potentially decrease the cash available for distribution. Thus, higher market interest rates could cause the market price of our common stock to decline.

The number of shares available for future sale could adversely affect the market price of our common stock.

We cannot predict whether future issuances of shares of our common stock or the availability of shares of our common stock for resale in the open market will decrease the market price per share of our common stock. Sales of a substantial number of shares of our common stock in the public market, either by us or by holders of operating partnership units upon exchange of such operating partnership units for our common stock, or the perception that such sales might occur, could adversely affect the market price of the shares of our common stock. CBI, as a holder of the operating partnership units issued in the formation transactions, will have the right to require us to register with the SEC the resale of the common stock issuable, if we so elect, upon redemption of these operating partnership units. CBI is restricted from exercising its redemption rights prior to the first anniversary of the completion of our initial public offering. In addition, we registered shares of common stock that we have reserved for issuance under our 2012 Long Term Incentive Plan, and they can generally be freely sold in the public market, assuming any applicable restrictions and vesting requirements are satisfied. In addition, except as described in connection with our initial public offering, we, CBI and our directors and executive officers agreed with the underwriters of our initial public offering not to offer, sell, contract to sell, pledge or otherwise dispose of any shares of common stock or securities convertible or exchangeable into our common stock (including operating partnership units) for a period of 180 days, with respect to us and our directors and

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executive officers, and 12 months, with respect to CBI, after the completion of our initial public offering; however, these lock-up agreements are subject to numerous exceptions and the representatives of the underwriters may waive these lock-up provisions without notice. If any or all of these holders cause a large number of their shares to be sold in the public market, the sales could reduce the trading price of our common stock and could impede our ability to raise future capital.

The market price and trading volume of our common stock may be volatile.

Prior to the completion of our initial public offering, there was not any public market for our common stock. Even if an active trading market develops for our common stock, the market price of our common stock may be volatile. In addition, the trading volume in our common stock may fluctuate and cause significant price variations to occur. If the market price of our common stock declines significantly, you may be unable to resell your shares at a profit or at all. We cannot assure you that the market price of our common stock will not fluctuate or decline significantly in the future.

Some of the factors that could negatively affect the market price of our common stock or result in fluctuations in the price or trading volume of our common stock include:

- actual or anticipated variations in our quarterly results of operations or distributions;
- changes in our funds from operations or earnings estimates;
- publication of research reports about us or the real estate, technology or data center industries;
- increases in market interest rates that may cause purchasers of our shares to demand a higher yield;
- changes in market valuations of similar companies;
- adverse market reaction to any additional debt we may incur in the future;
- additions or departures of key personnel;
- actions by institutional stockholders;
- speculation in the press or investment community about our company or industry or the economy in general;
- the occurrence of any of the other risk factors presented in this Annual Report on Form 10-K; and
- general market and economic conditions.

Our earnings and cash distributions will affect the market price of shares of our common stock.

We believe that the market value of a REIT s equity securities is based primarily upon market perception of the REIT s growth potential and its current and potential future cash distributions, whether from operations, sales, acquisitions, development or refinancing, and is secondarily based upon the value of the underlying assets. For these reasons, shares of our common stock may trade at prices that are higher or lower than the net asset value per share. To the extent we retain operating cash flow for investment purposes, working capital reserves or other purposes rather than distributing the cash flow to stockholders, these retained funds, while increasing the value of our underlying assets, may negatively impact the market price of our common stock. Our failure to meet market expectations with regard to future earnings and cash distributions would likely adversely affect the market price of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

The information set forth under the caption Our Portfolio in Item 1 of this Annual Report on Form 10-K is incorporated by reference herein.

ITEM 3. LEGAL PROCEEDINGS

In the ordinary course of our business, from time to time we are subject to claims and administrative proceedings, none which are currently outstanding which we believe would have, individually or in the aggregate, a material effect on our business, financial condition and results of operations, liquidity and cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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Part II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASE OF EQUITY SECURITIES.

A) Market Information

Our common stock is listed on the NASDAQ Global Select Market under the symbol CONE . Our shares have only been publicly traded since January 18, 2013; as a result, we have not set forth quarterly information with respect to the high and low sales prices of our common stock and the dividends declared thereon for the two most recently completed fiscal years.

B) Holders

As of March 14, 2013, CyrusOne Inc. had 259 shareholders of record and 21,884,703 outstanding shares.

C) Distribution Policy

No distributions were declared in 2012. We intend to make regular quarterly distributions to holders of our common stock and partnership units. We intend to make an initial distribution to holders of record as of March 29, 2013 of $0.16 per share. On an annualized basis, this would be $0.64 per share, or an annual distribution rate of approximately 3.4% based on the initial public offering price of $19 per share. We established this intended initial annual distribution rate based on our estimate of cash available for distribution for the 12 months ending December 31, 2013 unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in our estimate. Distributions made by us will be authorized and determined by our board of directors in its sole discretion out of funds legally available therefor and will be dependent upon a number of factors, including restrictions under applicable law and other factors. If we have underestimated our cash available for distribution, we may need to increase our borrowings in order to fund our intended distributions. We expect that, at least initially, our distributions may exceed our net income under accounting principles generally accepted in the United States of America (U.S. GAAP) because of non-cash expenses included in net income. Notwithstanding the foregoing, the covenants contained in the revolving credit facility and the indenture do not restrict our ability to pay dividends or distributions to our stockholders to the extent (i) no event of default or certain other specified defaults exist or are continuing under the revolving credit facility and indenture and (ii) we reasonably believe 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 our status as a REIT or to enable us to avoid payment of any tax that could be avoided by reason of such dividend or distribution.

D) Recent Sales of Unregistered Securities

As part of the formation transactions, we issued 44,102,556 of the outstanding partnership units of our operating partnership to CBI, after giving effect to an approximately 2.8-to-1 unit reverse split immediately prior to the completion of our initial public offering. In connection with the completion of our initial public offering, on January 24, 2013, we issued 374,279 shares of our common stock to CBI in exchange for the satisfaction and discharge of intercompany indebtedness related to CBI s incurrence of certain offering expenses on our behalf. In addition, on the same date, CBI also exchanged approximately 1.5 million partnership units for CyrusOne common stock. We have a pre-existing relationship with CBI, and the sale of our common stock and the operating partnership units was effected under an exemption from registration provided by Section 4(a)(2) of the Securities Act. In addition, we also issued approximately 1,000,000 shares of our common stock to directors and employees. Vesting of those shares is contingent upon completion of service.

On January 24, 2013, we completed our initial public offering of common stock pursuant to a Registration Statement on Form S-11, as amended (Reg. No. 333-183132) that was declared effective on January 17, 2013.

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Under the registration statement, we registered 18,975,000 shares of our common stock. All of the 18,975,000 shares of common stock registered under the registration statement, which included 2,475,000 shares of our common stock covered by an over-allotment option granted to the underwriters, were sold at a price to the public of $19.00 per share. Morgan Stanley & Co. LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated acted as representatives of the underwriters. The offering commenced on January 17, 2013 and was closed on January 24, 2013. The closing of the over-allotment portion of the offering also occurred on January 24, 2013. As a result of the initial public offering, we raised a total of $360.5 million in gross proceeds, and retained approximately $337.1 million in net proceeds after deducting underwriting discounts and commissions of $23.4 million. We used the entire amount of the net proceeds from the offering to purchase approximately 19.0 million of CyrusOne LP s operating partnership units. CyrusOne LP will use the proceeds it received from us to fund future acquisitions of real estate, development of real estate, recurring real estate expenditures and other non-real estate capital expenditures and general working capital. Pending application of such cash proceeds, we are investing the net proceeds from our initial public offering in interest bearing accounts and short-term, interest bearing securities, which are consistent with our intention to qualify for taxation as a REIT.

E) Issuer Purchases of Equity Securities

Not applicable for the year ended December 31, 2012.

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected financial and operating data on a combined historical basis.

CBI has operated its Cincinnati-based data center business for over 10 years; in addition, it acquired GramTel, a data center operator in South Bend, Indiana and Chicago, Illinois, for approximately $20 million in December 2007; and it acquired Cyrus Networks, a data center operator based in Texas, for approximately $526 million, net of cash acquired, in June 2010. As part of the formation transactions completed on November 20, 2012, certain subsidiaries of CBI contributed these assets and operations to our operating partnership, CyrusOne LP.

The financial information as of December 31, 2012 and 2011 and for each of the years ended December 31, 2012, 2011 and 2010 has been derived from our audited combined financial statements included elsewhere in this Form 10-K. The historical financial information as of December 31, 2010, 2009 and 2008, and for the years ended December 31, 2009, and 2008 has been derived from the Predecessor s combined financial statements not included in this Form 10-K.

You should read the following selected financial data in conjunction with our combined historical financial statements and the related notes and with Management s Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this Form 10-K.

	Year ended December 31,				
(dollars in millions)	2012	2011	2010 [(a)]	2009	2008
Statement of Operations Data:					
Revenue	$ 220.8	$ 181.7	$ 127.5	$ 74.1	$ 56.1
Costs and expenses:					
Property operating expenses	76.0	58.2	43.9	31.0	24.9
Sales and marketing	9.7	9.1	6.8	5.1	3.7
General and administrative	20.7	12.5	7.0	4.2	7.3
Depreciation and amortization	73.4	55.5	36.2	18.0	11.4
Transaction costs [(b)]	5.7	2.6	9.0		
Management fees charged by CBI [(c)]	2.5	2.3	3.6	1.5	1.3
Loss on sale of receivables to affiliate [(d)]	3.2	3.5	1.8	1.2	0.2
Restructuring costs [(e)]			1.4		
Asset impairments [(f)]	13.3				
Operating income	16.3	38.0	17.8	13.1	7.3
Interest expense	41.8	32.9	11.5	3.1	1.5
Loss on extinguishment of debt [(g)]		1.4			
Income tax (benefit) expense	(5.1)	2.2	2.7	3.9	2.3
(Loss) income from continuing operations	(20.4)	1.5	3.6	6.1	3.5
(Gain) loss on sale of real estate improvements [(h)]	(0.1)		0.1		
Net (loss) income	$ (20.3)	$ 1.5	$ 3.5	$ 6.1	$ 3.5
Balance Sheet Data (at year end):					
Investment in real estate, net	$ 706.9	$ 529.0	$ 403.7	$ 248.7	$ 236.2
Total assets	1,210.9	954.7	862.3	279.6	270.7
Debt [(i)]	557.2	523.1	452.0	69.7	64.4
Other financing arrangements [(j)]	60.8	48.2	32.5		
Parent s net investment [(k)]	500.1	311.5	317.8	163.4	158.3
Other Financial Data:					
Capital expenditures	$ 228.3	$ 117.5	$ 29.3	$ 20.7	$ 74.5

(a) In June 2010, the Predecessor completed the acquisition of Cyrus Networks. The results of operations of this business are included in the Predecessor s results from the acquisition date.

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(b) Represents legal, accounting and consulting fees incurred in connection with the formation transactions, our qualification as a REIT and completed and potential business combinations.
(c) Represents management fees charged by CBI for services it provided to the Predecessor including executive management, legal, treasury, human resources, accounting, tax, internal audit and IT services. See Note 14 to our audited combined financial statements included elsewhere in this 10-K.
(d) Represents the sale by the Predecessor of most of its trade and other accounts receivable to Cincinnati Bell Funding LLC (CBF), a bankruptcy-remote subsidiary of CBI, at a 2.5% discount to the receivables face value. Effective October 1, 2012, we terminated our participation in this program.
(e) Represents a restructuring charge recognized in 2010 to terminate a legacy sales commission plan in order to transition to a common plan for all commissioned employees.
(f) Reflects asset impairments recognized on a customer relationship intangible and property and equipment primarily related to our GramTel acquisition.
(g) Represents the termination of the financing obligation for one of our facilities by purchasing the property from the former lessor. A loss of $1.4 million was recognized upon the termination of this obligation.
(h) Represents the (gain) loss that was recognized on the sale of generators in connection with upgrading of the equipment at various data center facilities.
(i) As of December 31, 2012, debt consists of our $525 million senior notes due 2022 and capital lease obligations. For prior periods, debt reflects related party note payable and capital lease obligations.
(j) Other financing arrangements represent leases of real estate where we were involved in the construction of structural improvements to develop buildings into data centers. When we bear substantially all the construction period risk, such as managing or funding construction, we are deemed to be the accounting owner of the leased property. These transactions generally do not qualify for sale-leaseback accounting due to our continued involvement in these data center operations. For these transactions, at the lease inception date, we recognize arrangements. The fair value of the leased building is recognized as an asset in investment in real estate and as a liability in other financing arrangements.
(k) Parent s net investment represents CBI s net investment in CyrusOne Inc., CyrusOne GP, CyrusOne LP and its subsidiaries. Prior to November 20, 2012, these entities were not separate legal entities.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our results of operations, financial condition and liquidity in conjunction with our combined financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategies for our business, statements regarding the industry outlook, our expectations regarding the future performance of our business and the other non-historical statements contained herein are forward-looking statements. See Special Note Regarding Forward-Looking Statements. You should also review the Risk Factors section of this report for a discussion of important factors that could cause actual results to differ materially from the results described herein or implied by such forward-looking statements

The combined financial statements included in this Form 10-K reflect the historical financial position, results of operations and cash flows of CyrusOne for all periods presented. Prior to November 20, 2012, the historical financial statements have been prepared on a carve-out basis from CBI s consolidated financial statements using the historical results of operations, cash flows, assets and liabilities attributable to the data center business and include allocations of income, expenses, assets and liabilities from CBI. These allocations reflect significant assumptions, and the combined financial statements do not fully reflect what the financial position, results of operations and cash flows would have been had CyrusOne been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of CyrusOne s future results of operations, financial position and cash flows. The results of Cyrus Networks are included in these results from the date of its acquisition in June 2010, which affects comparability between periods.

Because we believe that a discussion of the historical results of the newly-formed registrant, CyrusOne, would not be meaningful on a standalone basis, we have set forth below a discussion of the historical operations of CyrusOne. Where appropriate, the following discussion includes analysis of the effects of the formation transactions, our initial public offering and related financing transactions.

Overview

Our Company. We are an owner, operator and developer of enterprise-class, carrier-neutral data center properties. Enterprise-class, carrier-neutral data centers are purpose-built facilities with redundant power, cooling and telecommunications systems and that are not network-specific, enabling customer interconnectivity to a range of telecommunications carriers.

We provide mission-critical data center facilities that protect and ensure the continued operation of IT infrastructure for over 500 customers. Our goal is to be the preferred global data center provider to the Fortune 1000. As of December 31, 2012, our customers included nine of the Fortune 20 and 115 of the Fortune 1000 or private or foreign enterprises of equivalent size. These 115 customers provided 76% of our annualized rent as of December 31, 2012. Additionally, as of December 31, 2012, our top 10 customers (including CBI) represented 45% of our annualized rent.

We cultivate long-term strategic relationships with our customers and provide them with solutions for their data center facilities and IT infrastructure challenges. Our offerings provide flexibility, reliability and security and are delivered through a tailored, customer service-focused platform that is designed to foster long-term relationships. We focus on attracting customers that have not historically outsourced their data center needs. We believe our capabilities and reputation for serving the needs of large enterprises will allow us to capitalize on the growing demand for outsourced data center facilities in our markets and in new markets where our customers are located or plan to be located in the future.

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Our Portfolio. As of December 31, 2012, our property portfolio included 24 operating data centers in ten distinct markets (Austin, Chicago, Cincinnati, Dallas, Houston, London, Phoenix, San Antonio, Singapore and South Bend), collectively providing approximately 1,716,000 NRSF, and powered by approximately 135 MW of utility power. We own ten of the buildings in which our data center facilities are located. We lease the remaining 14 buildings, which account for approximately 600,000 NRSF, or approximately 35% of our total operating NRSF. These leased buildings accounted for 37% of our total annualized rent as of December 31, 2012. We also currently have 238,000 NRSF under development at two data centers in (Houston and Phoenix), and 803,000 NRSF of additional powered shell space under roof and available for development, and approximately 140 acres of land that are available for future data center facility development. Along with our primary product offering, leasing of colocation space, our customers are increasingly interested in ancillary office and other space. We believe our existing operating portfolio and development pipeline will allow us to meet the evolving needs of our existing customers and continue to attract new customers.

Business Model

Revenue Base. As of December 31, 2012, we had over 500 customers, many of which have signed leases for multiple sites and multiple services, amenities and/or features. We generate recurring revenues from leasing colocation space and nonrecurring revenues from the initial installation and set-up of customer equipment. We provide customers with data center services pursuant to leases with a customary initial term of three to five years, and, as of December 31, 2012, our leases had a weighted average of 2.3 years remaining based upon annualized rent. Lease expirations through 2015, excluding month-to-month leases, represent 38% of our total square footage or 63% of our aggregate annualized rent as of December 31, 2012. At the end of the lease term, customers may sign a new lease or automatically renew pursuant to the terms of their lease. The automatic renewal period could be for varying lengths, depending on the terms of the contract, such as for the original lease term, one year or month-to-month. As of December 31, 2012, 8% of the NRSF in our portfolio was subject to month-to-month leases.

Our management team focuses on minimizing recurring rent churn. We define recurring rent churn as any reduction in recurring rent due to customer terminations, net pricing reductions or service reductions as a percentage of the annualized rent at the beginning of the applicable period, excluding any impact from metered power reimbursements. For the year ended December 31, 2012, our recurring rent churn was 4.6%, which includes the termination of one lease for legacy data center space that had been utilized for over 20 years. The legacy data center space has been decommissioned and is expected to be developed into data center space that we believe will generate higher amounts of revenue than the prior lease. Excluding this lease, the recurring rent churn for the year ended December 31, 2012, was 3.6%. For the year ended December 31, 2011, we experienced a recurring rent churn of 3%, approximately half of which was attributable to customers that ceased using our facilities.

Costs and expenses. Our property operating expenses generally consist of electricity (including the cost to power data center equipment), salaries and benefits of data center operations personnel, real estate taxes, security, rent, insurance and other site operating and maintenance costs. Our property operating expenses are expected to increase as we expand our existing data center facilities and develop new facilities.

Our sales and marketing expenses consist of salaries and benefits of our sales personnel, marketing and advertising costs. Prior to January 1, 2011, sales and marketing expenses also included sales commissions for sales personnel for a legacy plan that paid commissions as a percentage of monthly recurring revenue. This plan was terminated effective December 31, 2010, in order to transition to a common plan that pays commissions at lease inception. Our sales and marketing expenses are expected to increase as our business continues to grow.

General and administrative expenses consist of salaries and benefits of senior management and support functions, legal costs and consulting costs. These costs are expected to increase in the near term as we augment our team and back office infrastructure, including IT systems, to support the growth and expansion of our business. In addition, we expect to incur additional compensation, legal, accounting, board fees and other governance costs to operate as an independent public company subject to the reporting and compliance requirements of the SEC and the Sarbanes-Oxley Act. We estimate these incremental costs to approximate $5.0 million annually, exclusive of stock compensation costs. In connection with the initial public offering, we issued equity awards to board members and employees. We estimate the annual incremental, non-cash compensation costs associated with those awards and other long term incentive awards to range from $11.0 million to $16.0 million. We anticipate that we will not be able to pass along these additional costs to our customers.

Depreciation and amortization expense consists of depreciation on both owned and leased property, amortization of intangible assets and amortization of deferred sales commissions. Depreciation and amortization expense is expected to increase in future periods as we acquire and develop new properties and expand our existing data center facilities.

Prior to November 2012, a portion of our operating expenses has been in the form of management fees allocated from CBI for services provided by CBI. Such management services include executive management, cash management, legal, treasury, human resources, accounting, tax, internal audit, risk management and other corporate services. Depending on the nature of the respective cost, our allocated cost for these services was based upon specific identification of costs incurred on our behalf or a reasonable estimate of costs incurred on our behalf, such as relative revenues. See Note 14 to our audited combined financial statements included in this report for additional detail. We entered into transition services agreements with CBI pursuant to which CBI will provide certain of these services, on an as needed basis, to the operating partnership.

Key Operating Metrics

Annualized Rent. We calculate annualized rent as monthly contractual rent (defined as cash rent including customer reimbursements for metered power) under existing customer leases as of December 31, 2012, multiplied by 12. For the month of December 2012, customer reimbursements were $20.8 million annualized and consisted of reimbursements by customers across all facilities with separately metered power. Other companies may not define annualized rent in the same manner. Accordingly, our annualized rent may not be comparable to others. Management believes annualized rent provides a useful measure of our currently in place lease revenue.

Colocation Square Feet (CSF). We calculate CSF as the NRSF at an operating facility that is currently leased or readily available for lease as colocation space, where customers locate their servers and IT equipment.

Utilization Rate. We calculate utilization rate by dividing CSF under signed leases for available space (whether or not the contract has commenced billing) by total CSF. Utilization rate differs from percent leased presented elsewhere in this report because utilization rate excludes office space and supporting infrastructure NRSF and includes CSF for signed leases that have not commenced billing. Management uses utilization rate as a measure of CSF leased.

Recurring Rent Churn. We calculate recurring rent churn as any reduction in recurring rent due to customer terminations, net pricing reductions or service reductions as a percentage of the annualized rent at the beginning of the applicable period, excluding any impact from metered power reimbursements.

Capital Expenditures. Expenditures that expand, improve or extend the life of real estate and non-real estate property are deemed capital expenditures. Management views its capital expenditures as comprised of acquisition of real estate, development of real estate, recurring real estate expenditures and all other non-real estate capital expenditures. Purchases of land or buildings from third parties represent acquisitions of real estate. Discretionary capital spending that expands or improves our data centers is deemed development of real estate. Replacements of data center assets are considered recurring real estate expenditures. Purchases of software, computer equipment and furniture and fixtures are included in all other non-real estate capital expenditures.

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Factors That May Influence Future Results of Operations

Rental Income. Our revenue growth will depend on our ability to maintain our existing revenue base and to sell new capacity that becomes available as a result of our development activities. As of December 31, 2012, we have customer leases for approximately 78% of our CSF. Our ability to grow revenue will also be affected by our ability to maintain or increase rental rates at our properties. We believe the current rates charged to our customers generally reflect appropriate market rates based on square footage and power densities provided to the customer. As such, we do not anticipate significant rate increases or decreases in the aggregate as contracts renew. However, negative trends in one or more of these factors could adversely affect our revenue in future periods. Future economic downturns, regional downturns affecting our markets or oversupply of, or decrease in demand for, data center colocation services could impair our ability to attract new customers or renew existing customers leases on favorable terms, and this could adversely affect our ability to maintain or increase revenues.

Leasing Arrangements. As of December 31, 2012, 39% of our leased NRSF has been to customers on a full-service gross basis. Under a full-service gross model, the customer pays a fixed monthly rent amount, and we are responsible for all data center facility electricity, maintenance and repair costs, property taxes, insurance and other utilities associated with that customer s space. For leases under this model, fluctuations in our customers monthly utilization of power and the prices our utility providers charge us impact our profitability. As of December 31, 2012, 61% of our leased NRSF has been to customers with separately metered power. Under the metered power model, the customer pays us a fixed monthly rent amount, plus its actual costs of sub-metered electricity used to power its data center equipment, plus an estimate of costs for electricity used to power supporting infrastructure for the data center, expressed as a factor of the customer s actual electricity usage. We are responsible for all other costs listed in the description of the full-service gross model above. Fluctuations in a customer s utilization of power and the supplier pricing of power do not impact our profitability under the metered power model. In future periods, we expect more of our contracts to be structured to bill power on a metered power basis.

Growth and Expansion Activities. Our ability to grow our revenue and profitability will depend on our ability to acquire and develop data center space at an appropriate cost and to lease the data center space to customers on favorable terms. During the year ended December 31, 2012, we completed development of approximately 310,000 NRSF, primarily in Phoenix, Austin, Dallas, Houston and San Antonio, bringing our total operating NRSF to approximately 1,716,000 at December 31, 2012. For the year ended December 31, 2012, our average cost of development was approximately $675 per square foot. Fluctuations may occur in our average cost of development per CSF from period to period based on power density, customer requirements (such as required resiliency level) and the type of property. Our portfolio, as of December 31, 2012, also included approximately 238,000 NRSF under development as well as 803,000 NRSF of additional powered shell space under roof and available for development. In addition, we have approximately 140 acres of land that are available for future data center facility development. We expect that the eventual construction of this future development space will enable us to accommodate a portion of the future demand of our existing and future customers and increase our future revenue, profitability and cash flows.

Scheduled Lease Expirations. Our ability to maintain low recurring rent churn and renew expiring customer leases on favorable terms will impact our results of operations. As of December 31, 2012, 8% of the NRSF in our portfolio was subject to month-to-month leases. Our data center uncommitted capacity as of that date was approximately 413,000 NRSF. Excluding month-to-month leases, leases representing 18% and 7% of our total NRSF were scheduled to expire in 2013 and 2014, respectively. These leases represented approximately 36% and 14% of our annualized rent as of December 31, 2012. Month-to-month leases represented 8% of our annualized rent as of December 31, 2012. Our recurring rent annual churn for 2012 and 2011 was 4.6% and 3%, respectively.

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Conditions in Significant Markets. Our operating properties are located primarily in the Dallas and Houston metro areas of Texas and the Cincinnati, Ohio metro area. These markets comprised 20%, 37% and 37%, respectively, of our annualized rent as of December 31, 2012. Positive or negative conditions in these markets could impact our overall profitability.

Related Party Transactions

The following related party transactions are based on agreements and arrangements that were in place as of December 31, 2012. See Note 14 to our audited combined financial statements for additional information on these arrangements.

We lease colocation space in our data centers to Cincinnati Bell Telephone Company LLC (CBT) and Cincinnati Bell Technology Solutions (CBTS) subsidiaries of CBI. Revenue recognized from these arrangements was $5.4 million, $4.4 million and $2.0 million in 2012, 2011 and 2010, respectively. In November 2012, we entered into separate data center colocation agreements with CBT and CBTS whereby we will continue to lease colocation space to each of them at certain of our data centers. The data center colocation agreement with CBT provides for CBT s lease of data center space, power and cooling in our West Seventh Street (7th St.), Kingsview Drive (Lebanon), Knightsbridge Drive (Hamilton) and Industrial Road (Florence) data center facilities for a period of five years at an aggregate rate of $3.8 million per year. Our data center colocation agreement with CBTS provides for CBTS s lease of data center space, power and cooling in our West Seventh Street (7th St.), Kingsview Drive (Lebanon) and Industrial Road (Florence) data center facilities for a period of five years at an aggregate rate of $1.6 million per year. Both agreements are renewable for an additional five year term at market rates.

CBT occupies space in our 229 West Seventh Street facility that is utilized in its network operations. In November 2012, in connection with our purchase of this property, we entered into an agreement to lease this space to CBT for a period of five years, with three renewal options of five years each, at an initial annual base rent of approximately $0.1 million, plus a proportionate share of building operating costs. Commencing on January 1, 2014, and on January 1 of each year thereafter, such base rent shall increase by 1% of the previous year s base rent. Revenue earned from this lease was less than $0.1 million in 2012, with no such revenue in prior years.

In November 2012, we entered into agreements to lease office space to CBT at our Goldcoast Drive (Goldcoast) data center facility and to CBTS at our Parkway (Mason) data center facility. The aggregate annual base rent for these spaces will be approximately $0.3 million per year. The term of these agreements are five years each. Both agreements contain three five-year renewal options at market rates. Revenue earned from these leases was $0.3 million in both 2012 and 2011, and $0.2 million in 2010.

In January 2012, we entered into a transition services agreement to provide CBTS with network interface services. Revenue recognized for these services was $0.5 million in 2012, with no such revenue in prior years. In November 2012, we entered into a new transition services agreement with CBTS where we will continue to provide them with network interface services. The annual fee to be paid by CBTS for these services is approximately $0.5 million, which may decline in future periods as CBTS migrates its network interfaces onto an independent architected and managed CBTS network. These services will be provided on a month-to-month basis, until such time the services in question have been fully transitioned, which we expect may be as long as 24 months.

As of December 31, 2012, CBTS continues to be the named lessor for two data center leases. Revenues associated with these leases were $14.3 million, $14.2 million, and $13.1 million in 2012, 2011, and 2010, respectively. In 2012, we entered into an agreement with CBTS whereby we perform all obligations of CBTS under the lease agreements. CBTS confers the benefits received under such lease agreements to us and CBTS is granted sufficient usage rights in each of our data centers so that it remains as lessor under each such lease agreement. In addition, CBTS will continue to perform billing and collections on these accounts.

In January 2012, we entered into a transition services agreement with CBTS where CBTS provided us with network support, services calls, monitoring and management, storage and backup and IT systems support. Expense recognized for these services was $1.5 million in 2012, with no such costs in prior years. In November 2012, we entered into new services agreements with CBT and CBTS. Under the CBTS services agreement, CBTS has agreed to provide us with certain managed storage and backup services. These services will be provided on a month-to-month basis, and charges will be based on the variable amount of gigabytes managed by CBTS each month. CBTS will charge us a rate of $0.56 per gigabyte, and the annual fee to be paid by us for these services is approximately $0.2 million. We expect that services under this agreement may extend for as long as 36 months.

Under the CBT services agreement, CBT provides us with connectivity services for a period of five years related to several of our data center facilities. These services are related to the use of fiber and circuit assets that are currently a part of the CBI network. The annual fee for these services will be $0.9 million, subject to reduction if we terminate certain services. Expense recognized from this arrangement was $0.7 million in 2012, with similar amounts in 2011 and 2010.

In October 2012, we purchased the property located at 229 West Seventh Street, included as one of our 24 operating facilities, which we had formerly leased from CBT. The purchase price was $18 million, which was in the form of a promissory note payable on demand by CBT. Interest on the note accrued at the rate of 10% per annum. This promissory note was repaid in connection with the closing of the formation transactions on November 20, 2012, with a portion of the net proceeds from our senior notes offering. CBT continues to own the adjacent property that was historically operated together with 229 West Seventh Street as one property. We also executed a reciprocal easement and shared services agreement and a right of first opportunity and refusal agreement with CBT with respect to such properties. Pursuant to the reciprocal easement and shared services agreement, we granted reciprocal easements to each other; CBT has easements for continued use of portions of our building and CBT provides fuel storage, fire suppression and other building services to us; and we provide chilled water, building automation systems related to heating ventilation and air conditioning and other building services to CBT. The shared services agreement is expected to continue for a period of 15 years with five renewal options of five years each. Initially, we are responsible for operating and managing the service facilities for both buildings. Each party will bear its own utility costs, as well as property taxes and insurance. Shared building operating costs will be charged to each party on the basis of the actual costs incurred, allocated based on the proportionate share of usage. Each party will also pay the other party less than $0.2 million per year to maintain shared building infrastructure systems. This agreement contains a make-whole provision that requires us to make a payment to CBT if CBT s carrier access revenue declines below $5.0 million per annum as a result of certain actions taken by us which result in circuit disconnections or reductions at CBT. The term of this make-whole provision is approximately four years.

Pursuant to the right of first opportunity and refusal agreement, we and CBT have agreed to grant to each other rights of first opportunity and first refusal to purchase each other party s property in the event that either party desires to sell its property to a non-affiliate third party.

In November 2012, we also entered into an agreement to lease space at CBT s 209 West Seventh Street facility for a period of five years, with three renewal options of five years each. The initial annual base rent will be approximately $0.1 million per year, plus our proportionate share of building operating costs. Commencing on January 1, 2014, and on January 1 of each year thereafter, such base rent shall increase by 1% of the previous year s base rent. Expense recognized from this arrangement was less than $0.1 million in 2012, and $0.4 million in 2011 and 2010.

On November 20, 2012, we also entered into a non-competition agreement with CBI, pursuant to which we and CBI agreed not to enter into each other s lines of business, subject to certain exceptions for a period of four years from such date. Pursuant to the terms of this agreement, we agreed not to directly or indirectly engage in, or have any interest in any entity that engages in, the business of providing telecommunications services in certain areas of Ohio, Kentucky and Indiana in which CBI operates as of such date. We also agreed not to seek, request or apply for any certification or license to provide telecommunications services in such areas during the term of the agreement. CBI agreed not to directly or indirectly engage in, or have any interest in any entity that engages in, the business of constructing and selling, operating or providing data center services in the United States or any foreign jurisdiction in which we operate. However, CBI may continue to offer certain data center services, provided that such services are ancillary to its provision of existing IT services, and CBI does not own, lease or is contracted to own, lease or manage the data center infrastructure of the facility in which such existing IT services are being provided.

Services Performed by CBI and Other Affiliates

Transition Services

Prior to November 20, 2012, CBI provided various management services, including executive management, cash management, legal, treasury, human resources, accounting, tax, internal audit and risk management services. Our allocated cost for these services was based upon specific identification of costs incurred on our behalf or a reasonable estimate of costs incurred on our behalf, such as relative revenues. Our allocated cost for management services was $2.5 million, $2.3 million, and $3.6 million in 2012, 2011, and 2010, respectively. In November 2012, we entered into a transition services agreement with CBI pursuant to which CBI will continue to provide certain of these services, on an as needed basis to the operating partnership one year from the date of our initial public offering, provided, however, that the agreement or the provision of a particular service to be provided thereunder may be terminated for convenience by us upon 30 days prior written notice. The fees for these services will be based on actual hours incurred for these services at negotiated hourly rates or a negotiated set monthly fee.

Other Services

Some of our employees participated in pension, postretirement, health care, and stock-based compensation plans sponsored by CBI or an affiliate. Our allocated costs for employee benefits was determined by specific identification of the costs associated with our participating employees or based upon the percentage our employees represent of total participants. Our allocated employee benefit plan costs were $3.5 million, $1.8 million, and $1.1 million in 2012, 2011, and 2010, respectively. See Notes 12 and 13 to the audited combined financial statements for further details. Effective January 1, 2013, all our employees were covered by our own benefit and incentive plans.

We also participated in centralized insurance programs managed by CBI which included coverage for general liability, workers compensation, automobiles and various other risks. CBI has third-party insurance policies for certain of these risks and is also self-insured within certain limits. CBI s self-insured costs have been actuarially determined based on the historical experience of paid claims. Our allocated cost for participation in these programs was determined on the basis of revenues, headcount or insured vehicles. Our allocated insurance costs were $0.4 million, $0.4 million, and $0.2 million in 2012, 2011, and 2010, respectively. Subsequent to our initial public offering, we will maintain our own commercial insurance policies.

Effective January 1, 2012, we entered into marketing agreements with CBT and CBTS to appoint these affiliates as CyrusOne s authorized marketing representatives. Pursuant to the terms of these agreements, we pay these affiliates a commission for all new leases for space they attain, which is calculated as a percentage of the first month s recurring revenue with respect to such space, which ranges from 30% to 140%, depending on the lease term. For the year ended December 31, 2012, commissions incurred pursuant to these arrangements were $0.3 million, with no such costs in prior years. The term of these agreements expired on December 31, 2012.

Financing and Cash Management Arrangements

On November 20, 2012, CyrusOne LP co-issued, with CyrusOne Finance Corp., $525 million of Senior Notes from which the net proceeds were approximately $512 million. The Senior Notes bear interest at a rate of 6.375% per annum and mature in 2022. A portion of the proceeds of the Senior Notes issuance was utilized to repay approximately $480 million of related party notes payable. The remaining balance of related party notes payable was not contributed to CyrusOne LP.

On November 20, 2012, CyrusOne LP also entered into a $225 million revolving credit facility with a syndicate of financial institutions. The obligations under the revolving credit facility are guaranteed by CyrusOne and CyrusOne GP, as well as certain of CyrusOne LP s existing and future wholly-owned domestic subsidiaries, subject to certain exceptions. All obligations under the revolving credit facility, and the guarantees of those obligations, will be secured by substantially all of our assets, subject to certain exceptions. We intend to use this revolving credit facility, among other things, to finance the acquisition of properties, provide funds for customer improvements and capital expenditures and provide for working capital and for other corporate purposes. The revolving credit facility contains customary covenants for credit facilities of this type. In 2012, there were no outstanding borrowings on this revolving credit facility.

In conjunction with the completion of the above described financing transactions, CyrusOne was released from its guarantee of CBI s indebtedness.

Prior to the completion of the formation transactions on November 20, 2012, the Predecessor participated in CBI s centralized cash management program. On a periodic basis, all of our excess cash was transferred to CBI s corporate cash accounts. Likewise, substantially all funds to finance our operations, including acquisitions and development costs, were funded by CBI. As of December 31, 2011, advances and borrowings under this program were $9.6 million and $212.1 million, respectively. These advances and borrowings were governed by an intercompany cash management agreement. Effective November 19, 2010, all advances and borrowings were subject to interest at the average 30-day Eurodollar rate for the calendar month plus the applicable credit spread for Eurodollar rate borrowings charged for CBI s revolving line of credit. Prior to such date, the interest rate applied to such advances and borrowings was CBI s short-term borrowing rate. The average rate earned or charged was 5.0% in both 2012 and 2011 and 4.2% in 2010. As of November 20, 2012, $80 million of these borrowings were repaid and the remaining outstanding borrowings were not contributed to CyrusOne LP and there were no borrowings outstanding at December 31, 2012. As of December 31, 2011, borrowings of $80.2 million were presented within due to affiliates and related party notes payable in the accompanying combined financial statements. Net interest expense recognized on notes due to or from related parties was $7.0 million in 2012, and $1.1 million in 2011 and 2010.

On December 31, 2010, CBI restructured its data center legal entities, including intercompany borrowings. In conjunction with this restructuring. The Predecessor issued a $400 million note to CBI, which bore interest at 7.25%. On November 20, 2012, this note was repaid in full. Interest on this note was settled monthly through CBI s centralized cash management program. Interest expense of approximately $26 million and $29 million was recognized on this note for the year ended December 31, 2012 and 2011, respectively, with no such cost in 2010.

Historically, CBI had arranged for a $16.9 million letter of credit to be issued to guarantee certain performance commitments of the Predecessor. This letter of credit expired without renewal as of December 26, 2012. The Predecessor reimbursed CBI for the out-of-pocket costs related to this letter of credit.

Prior to October 1, 2012 we participated in an accounts receivable securitization program sponsored by CBI for certain of its subsidiaries. Under this program, we continuously sold certain trade accounts receivable to CBF at a 2.5% discount to receivables face value. In turn, CBF granted, without recourse, a senior undivided interest in the pooled receivables to various purchasers, including commercial paper conduits, in exchange for cash. The loss on sale of our accounts receivable in accordance with this program was $3.2 million, $3.5 million, and $1.8 million in 2012, 2011 and 2010, respectively. Effective October 1, 2012, we terminated our participation in this accounts receivable securitization program.

Because most of our receivables were sold, the Predecessor incurred an inconsequential amount of bad debt expense in 2012, 2011, and 2010. If this accounts receivable securitization program had not been in place, incremental bad debt expense would have been $0.2 million in 2012 and 2011, and less than $0.1 million in

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2010. Effective October 1, 2012, we terminated our participation in this accounts receivable securitization program.

Results of Operations

Comparison of Years Ended December 31, 2012 and 2011

(dollars in millions)	2012	2011	$ Change 2012 vs. 2011	% Change 2012 vs. 2011
Revenue	$ 220.8	$ 181.7	$ 39.1	22%
Costs and expenses:				
Property operating expenses	76.0	58.2	17.8	31%
Sales and marketing	9.7	9.1	0.6	7%
General and administrative	20.7	12.5	8.2	66%
Depreciation and amortization	73.4	55.5	17.9	32%
Transaction costs	5.7	2.6	3.1	119%
Management fees charged by CBI	2.5	2.3	0.2	9%
Loss on sale of receivables to CBF	3.2	3.5	(0.3)	(9%)
Asset impairments	13.3		13.3	n/m
Total costs and expenses	204.5	143.7	60.8	42%
Operating income	16.3	38.0	(21.7)	(57%)
Interest expense	41.8	32.9	8.9	27%
Loss on extinguishment of debt		1.4	(1.4)	(100%)
(Loss) income before income taxes	(25.5)	3.7	(29.2)	n/m
Income tax (benefit) expense	(5.1)	2.2	(7.3)	n/m
(Loss) income from continuing operations	(20.4)	1.5	(21.9)	n/m
Gain on sale of real estate improvements	(0.1)		(0.1)	n/m
Net (loss) income	$ (20.3)	$ 1.5	$ (21.8)	n/m
Operating margin	7.4%	20.9%		(13.5 pts)
Capital expenditures *:				
Acquisitions of real estate	$ 25.4	$ 22.4	$ 3.0	13%
Development of real estate	193.3	91.8	101.5	111%
Recurring real estate	3.9	1.8	2.1	117%
All other non-real estate	5.7	1.5	4.2	n/m
Total	$ 228.3	$ 117.5	$ 110.8	94%
Metrics information:				
Colocation square feet*	932,000	763,000	169,000	22%
Utilization rate*	78%	88%		(10) pts

* See Key Operating Metrics for a definition of capital expenditures, CSF and utilization rate.

Revenue

Revenue was $220.8 million in 2012, an increase of $39.1 million, or 22%, compared to 2011. This increase is primarily due to an increase in contractual monthly recurring revenue of $3 million, or 20%, when comparing December 2012 to December 2011. Monthly recurring revenue growth comes from leasing incremental space, power and related colocation services to both new and existing customers. As of December 31, 2012, we had a customer base of 518 customers as compared to 487 customers at the end of 2011. In addition to new customer growth, our existing customers contributed 65% of our growth in monthly recurring revenue through additional space, power and related colocation services.

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Our capacity increased to approximately 932,000 CSF at December 31, 2012, an increase of 169,000 CSF, or 22% from the corresponding period end. Compared to 2011, we constructed over 195,000 CSF and decommissioned legacy space totaling approximately 26,000 CSF. At December 31, 2012, the utilization rate of our data center facilities was 78%, down ten percentage points from December 31, 2011, as a result of additional CSF being placed in service.

For 2012, our recurring rent churn was 4.6%, which includes the termination of one lease for legacy data center space that had been utilized for over 20 years. The legacy data center space has been decommissioned and is expected to be developed into data center space that we believe will generate higher amounts of revenue than the prior lease. Excluding this lease, the recurring rent churn for 2012 would have been 3.6%.

Costs and Expenses

Property operating expenses Property operating expenses were $76.0 million in 2012, an increase of $17.8 million, or 31%, compared to 2011. Substantially all property operating expenses increased due to expansion of our data center facilities. Electricity increased by $8.4 million as we expanded our CSF. Payroll and other employee-related costs increased by $2.9 million due to increases in our operations staff. Contract services, including security, increased by $2.7 million in 2012. Rent and property taxes increased by $2.1 million and $1.5 million, respectively, compared to 2011 as we expanded our CSF.

Sales and marketing expenses Sales and marketing expenses were $9.7 million in 2012, an increase of $0.6 million, or 7%, compared to 2011. Compensation to sales and marketing personnel and other support costs decreased by $1.0 million in 2012 compared to 2011, resulting from the integration of the Cincinnati based sales function into the CyrusOne organization in 2012. Marketing costs increased by $1.5 million in 2012 as we continue to build our brand awareness through advertising, trade shows and other promotional activities.

General and administrative expenses General and administrative expenses were $20.7 million in 2012, an increase of $8.2 million, or 66%, compared to 2011. Payroll, employee benefits and other employee-related costs increased by $7.2 million in 2012 as we continued to build and strengthen the quality of personnel in finance and senior management. Consulting and legal costs increased by $1.4 million compared to 2011. Consulting and legal costs for 2012 included a $0.5 million settlement of an employee dispute related to commissions and $0.4 million associated with a conflicts of interests investigation. Severance costs associated with the termination of a member of senior management were $0.4 million in 2012, with no such costs in 2011. Partially offsetting these increases, contract services decreased by $0.5 million as we hired full-time employees in 2012 to replace contractors utilized in 2011. Other administrative costs decreased by $0.8 million resulting from the integration of the Cincinnati-based back office functions into the CyrusOne organization in 2012.

Depreciation and amortization expense Depreciation and amortization expense was $73.4 million in 2012, an increase of $17.9 million, or 32%, compared to 2011, driven by new assets placed in service in 2011 and 2012.

Transaction costs Transaction costs were $5.7 million in 2012, up $3.1 million compared to 2011. In 2012, transaction costs consisted of legal and consulting costs incurred in connection with the formation transactions and the qualification of CyrusOne as a REIT. In 2011, transaction costs were incurred to pursue acquisition opportunities.

Management fees charged by CBI Management fees were $2.5 million in 2012, an increase of $0.2 million, or 9%, compared to the corresponding period in 2011. These fees were allocated for services provided by CBI, including executive management, legal, treasury, human resources, accounting, tax, internal audit and IT services. Depending on the nature of the respective cost, our allocated cost for these services was based upon specific identification of costs incurred on our behalf or a reasonable estimate of costs incurred on our behalf.

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See Note 14 to our audited combined financial statements included elsewhere in this Form 10-K for additional details. Effective November 20, 2012, the management fee charged by CBI was terminated and replaced with a transition services agreement.

Loss on sale of receivables to CBF Loss on sale of receivables was $3.2 million in 2012, a decrease of $0.3 million, or 9%, compared to 2011. Prior to October 1, 2012, substantially all of our receivables were sold to CBF at a discount of 2.5% from their face value. Effective October 1, 2012, we terminated our participation in this program resulting in a lower loss on receivables sold in 2012.

Asset impairments During 2012, asset impairments of $13.3 million were recognized on a customer relationship intangible and long-lived assets primarily associated with our GramTel acquisition. No asset impairments were recognized in the corresponding period in 2011.

Operating Income

Operating income was $16.3 million in 2012, a decrease of $21.7 million, or 57%, compared to 2011. Operating income decreased due to asset impairments of $13.3 million, higher transaction costs of $3.1 million, and higher general and administrative costs as we build our organization for future growth. Operating margin was 7.4% in 2012, compared to 20.9% in 2011.

Nonoperating Expenses

Interest expense Interest expense was $41.8 million in 2012, an increase of $8.9 million, or 27%, compared to 2011. The increase in interest expense in 2012 was primarily due to growth in our related party notes payable and the issuance of $525 million of senior notes. On November 20, 2012, we issued $525 million of Senior Notes and utilized approximately $480 million of the proceeds to repay our related party notes payable to CBI and its affiliates. The remaining balance of related party notes payable was not contributed to CyrusOne LP. Our Senior Notes bear interest at 6.375% and mature in 2022. Capitalized interest expense was $2.7 million in 2012, a $0.1 million increase over 2011 due to higher capital expenditures.

Income tax (benefit) expense Income tax benefit was $5.1 million in 2012, compared to income tax expense of $2.2 million in the corresponding period in 2011, driven by a decrease in our income before income taxes.

Gain on sale of real estate improvements Gain on sale of real estate improvements was $0.2 million ($0.1 million net of tax) in 2012, with no such gains in the corresponding period of 2011. A gain was realized on the sale of generators as we upgraded the equipment at our Southwest Fwy (Galleria) data center facility.

Capital Expenditures

Capital expenditures were $228.3 million in 2012, an increase of $110.8 million, or 94%, compared to 2011. Acquisitions of real estate were $25.4 million in 2012 for the purchase of the Frankford Road (Carrollton) building and land adjacent to our Westway Park Blvd. (Houston West) facility. In 2011, acquisitions of real estate were $22.4 million, consisting of purchase of land near Phoenix, Arizona for $14.8 million and a building in San Antonio, Texas for $7.6 million. Development of real estate was $193.3 million in 2012, an increase of $101.5 million, or 111%, compared to 2011. In 2012, significant development projects included $36.5 million at Westway Park Blvd. (Houston West), $34.4 million at Frankford Road (Carrollton), $33.5 million at Westover Hills Blvd. (San Antonio), $52.6 million at South Ellis Street (Phoenix), $10.4 million at S. State Hwy Business (Lewisville), and $9.0 million at Metropolis Drive (Austin 2). Development of real estate was $91.8 million in 2011 and consisted of expansions at S. State Highway 121 Business (Lewisville), Westway Park Blvd. (Houston West), Metropolis Drive (Austin 2) and Kingsview Drive (Lebanon). Recurring real estate capital spend was $3.9

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million in 2012, up $2.1 million, or 117%, compared to 2011 due to an increase in CSF in service. Other non-real estate capital expenditures were $5.7 million, up $4.2 million, or 280%, over 2011 due to investments in computer hardware and software to support our growing business.

Comparison of Years Ended December 31, 2011 and 2010

(dollars in millions)	2011	2010	$ Change 2011 vs. 2010	% Change 2011 vs. 2010
Revenue	$ 181.7	$ 127.5	$ 54.2	43%
Costs and expenses:				
Property operating expenses	58.2	43.9	14.3	33%
Sales and marketing	9.1	6.8	2.3	34%
General and administrative	12.5	7.0	5.5	79%
Depreciation and amortization	55.5	36.2	19.3	53%
Acquisition costs	2.6	9.0	(6.4)	(71%)
Management fees charged by CBI	2.3	3.6	(1.3)	(36%)
Loss on sale of receivables to CBF	3.5	1.8	1.7	94%
Restructuring costs		1.4	(1.4)	n/m
Total costs and expenses	143.7	109.7	34.0	31%
Operating income	38.0	17.8	20.2	113%
Interest expense	32.9	11.5	21.4	186%
Loss on extinguishment of debt	1.4		1.4	n/m
Income before income taxes	3.7	6.3	(2.6)	(41%)
Income tax expense	2.2	2.7	(0.5)	(19%)
Income from continuing operations	1.5	3.6	(2.1)	(58%)
Loss on sale of real estate improvements		0.1	(0.1)	n/m
Net income	$ 1.5	$ 3.5	$ (2.0)	(57%)
Operating margin	20.9%	14.0%		6.9 pts
Capital expenditures:*				
Acquisitions of real estate	$ 22.4	$	$ 22.4	n/m
Development of real estate	91.8	24.7	67.1	272%
Recurring real estate	1.8	1.8		0%
All other non-real estate	1.5	2.8	(1.3)	(46%)
Total	$ 117.5	$ 29.3	$ 88.2	301%
Metrics information:				
Colocation square feet*	763,000	639,000	124,000	19%
Utilization rate*	88%	88%		0 pts

* See Key Operating Metrics for a definition of capital expenditures, CSF and utilization rate.

Revenue

Revenue was $181.7 million in 2011, an increase of $54.2 million, or 43%, compared to 2010. Results for 2011 include a full year of results from Cyrus Networks, which we acquired in June 2010. Cyrus Networks revenue was $95.4 million for the full year in 2011 compared to a partial year of revenues of $44.9 million in 2010. New business also contributed to the growth in revenue in 2011. In 2011, we completed construction on 124,000 CSF and leased 110,000 CSF. During the year, 82 new customers were added, including 14 Fortune 1000 customers or private or foreign enterprises of equivalent size. During 2011, we also commenced our operations in London and Singapore.

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As of December 31, 2011, our total data center capacity was 763,000 CSF, an increase of 19% compared to December 31, 2010. Data center space was added in Houston, Dallas and Austin, Texas, at our Kingsview Drive (Lebanon) facility, as well as in London and Singapore. The utilization rate of 88% at December 31, 2011 was consistent with the utilization rate at the end of the prior year. Recurring rent churn for 2011 was 3%, approximately half of which was attributable to customers that ceased using our facilities.

Costs and Expenses

Property operating expenses Property operating expenses were $58.2 million in 2011, an increase of $14.3 million, or 33%, compared to 2010. This increase in property operating expenses was primarily due to growth in our data center capacity associated with the acquisition of Cyrus Networks in June 2010 as well as expansion of our other data center facilities and corresponding increases in revenue. Cyrus Networks property operating expenses were $26.1 million in 2011 compared to $12.4 million in 2010, due to a full year of operations in 2011 compared to a partial year in 2010 due to the a