CINCINNATI BELL INC
Form 10-K/A
March 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K/A
(AMENDMENT NO. 1 TO 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, 2013

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

For the transition period from to
Commission File Number 1-8519
CINCINNATI BELL INC.

Ohio	31-1056105
(State of Incorporation)	(I.R.S. Employer Identification No.)

221 East Fourth Street, Cincinnati, Ohio 45202
(Address of principal executive offices) (Zip Code)
(513) 397-9900
(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 Shares (par value $0.01 per share)	New York Stock Exchange
6 $^{3}/_{4}$% Convertible Preferred Shares	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
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 o 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 x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, 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 x No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. x

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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o

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

The aggregate market value of the voting common shares owned by non-affiliates of the registrant was $0.6 billion, computed by reference to the closing sale price of the common stock on the New York Stock Exchange on June 30, 2013, the last trading day of the registrant’s most recently completed second fiscal quarter. The Company has no non-voting common shares.

At January 31, 2014, there were 208,738,253 common shares outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement relating to the Company’s 2014 Annual Meeting of Shareholders are incorporated by reference into Part III of this report to the extent described herein.

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends the Form 10-K filed by Cincinnati Bell Inc. on February 27, 2014 for the fiscal year ended December 31, 2013. In accordance with Rule 3-09 of SEC Regulation S-X, we are filing this amendment to include the financial statements of our equity method investee, CyrusOne Inc. and subsidiaries and CyrusOne LP and subsidiaries, as of December 31, 2013 (Successor) and 2012 (Predecessor) and for the periods from January 24, 2013 to December 31, 2013 (Successor), January 1, 2013 to January 23, 2013 (Predecessor) and for the years ended December 31, 2012 and 2011 (Predecessor). The audited financial statements of CyrusOne Inc. and subsidiaries and CyrusOne LP and subsidiaries for these periods are filed in this Form 10-K/A under Item 15 Exhibits and Financial Statement Schedules. In addition to the audited financial statements, new Exhibits 23.1, 23.2, 31.3, 31.4 and 32.3 are being filed pursuant to Commission regulations. Otherwise, this Form 10-K/A does not modify or update the financial position, results of operations, cash flows, disclosures or other information in Cincinnati Bell Inc.'s Annual Report on Form 10-K for the year ended December 31, 2013 and does not reflect events occurring after February 27, 2014 (the date the Form 10-K was filed).

PART IV

4

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements
The consolidated financial statements, as indexed on page 68 of the 2013 Form 10-K, were filed on February 27, 2014.

2. Financial Statement Schedules
Financial Statement Schedule II — Valuation and Qualifying Accounts was included on page 139 of the 2013 Form 10-K filed on February 27, 2014. All other schedules are not required under the related instructions or are not applicable.

3. Exhibits
See the exhibits listed under Exhibits on pages 65 - 69 of this Annual Report on Form 10-K/A.

(c) Pursuant to Rule 3-09 of SEC Regulation S-X, the following information is included herein in this Annual Report on Form 10-K/A:

CyrusOne Inc. and CyrusOne LP

Financial Statement Schedules

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of CyrusOne Inc.

We have audited the accompanying balance sheets of CyrusOne Inc. and subsidiaries (the "Company") as of December 31, 2013 (Successor) and 2012 (Predecessor), and the related statements of operations, equity, and cash flows for the periods from January 24, 2013 to December 31, 2013 (Successor) and January 1, 2013 to January 23, 2013 (Predecessor) and for the years ended December 31, 2012 and 2011 (Predecessor). Our audits also included the financial statement schedules listed in the index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of CyrusOne Inc. and subsidiaries at December 31, 2013 (Successor) and 2012 (Predecessor), and the results of their operations and their cash flows for the periods from January 24, 2013 to December 31, 2013 (Successor) and January 1, 2013 to January 23, 2013 (Predecessor) and for the years ended December 31, 2012 and 2011 (Predecessor), in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated and combined financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 3, the financial statements of the Company as of December 31, 2012 and for the period from January 1, 2013 to January 23, 2013 and for the years ended December 31, 2012 and 2011 include allocation of certain corporate overhead costs from Cincinnati Bell Inc. ("CBI"). These costs may not be reflective of the actual level of costs which would have been incurred had the Company operated as a separate entity apart from CBI. Also, the financial statements of the Company as of December 31, 2012 and for the periods from January 1, 2013 to January 23, 2013 and for the years ended December 31, 2012 and 2011 are presented as the "Predecessor" financial statements on a combined basis and the financial statements as of December 31, 2013 and for the period from January 24, 2013 to December 31, 2013 are presented on a consolidated basis as the "Successor" financial statements.

/s/ Deloitte & Touche LLP
Dallas, Texas
February 28, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Partners of CyrusOne LP

We have audited the accompanying balance sheets of CyrusOne LP and subsidiaries (the “Partnership”) as of December 31, 2013 (Successor) and 2012 (Predecessor), and the related statements of operations, partnership capital, and cash flows for the periods from January 24, 2013 to December 31, 2013 (Successor) and January 1, 2013 to January 23, 2013 (Predecessor) and for the years ended December 31, 2012 and 2011 (Predecessor). Our audits also included the financial statement schedules listed in the index at Item 15. These financial statements and financial statement schedules are the responsibility of the Partnership’s management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Partnership is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Partnership’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of CyrusOne LP and subsidiaries at December 31, 2013 (Successor) and 2012 (Predecessor), and the results of their operations and their cash flows for the periods from January 24, 2013 to December 31, 2013 (Successor) and January 1, 2013 to January 23, 2013 (Predecessor) and for the years ended December 31, 2012 and 2011 (Predecessor), in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated and combined financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 3, the financial statements of the Partnership as of December 31, 2012 and for the period from January 1, 2013 to January 23, 2013 and for the years ended December 31, 2012 and 2011 include allocation of certain corporate overhead costs from Cincinnati Bell Inc. (“CBI”). These costs may not be reflective of the actual level of costs which would have been incurred had the Company operated as a separate entity apart from CBI. Also, the financial statements of the Partnership as of December 31, 2012 and for the periods from January 1, 2013 to January 23, 2013 and for the years ended December 31, 2012 and 2011 are presented as the “Predecessor” financial statements on a combined basis and the financial statements as of December 31, 2013 and for the period from January 24, 2013 to December 31, 2013 are presented on a consolidated basis as the “Successor” financial statements.

/s/ Deloitte & Touche LLP
Dallas, Texas
February 28, 2014

7

CyrusOne Inc.
CONSOLIDATED AND COMBINED BALANCE SHEETS
(dollars in millions)

	Successor As of December 31, 2013	Predecessor As of December 31, 2012
Assets		
Investment in real estate:		
Land	$89.3	$44.5
Buildings and improvements	783.7	722.5
Equipment	190.2	52.4
Construction in progress	57.3	64.2
Subtotal	1,120.5	883.6
Accumulated depreciation	(236.7)	(176.7)
Net investment in real estate	883.8	706.9
Cash and cash equivalents	148.8	16.5
Rent and other receivables, net of allowance for doubtful accounts of $0.5 and $0.3 as of December 31, 2013 and December 31, 2012, respectively	41.2	33.2
Restricted cash	—	6.3
Goodwill	276.2	276.2
Intangible assets, net of accumulated amortization of $55.1 and $38.2 as of December 31, 2013, and December 31, 2012	85.9	102.6
Due from affiliates	0.6	2.2
Other assets	70.3	67.0
Total assets	$1,506.8	$1,210.9
Liabilities and equity		
Accounts payable and accrued expenses	$66.8	$37.1
Deferred revenue	55.9	52.8
Due to affiliates	8.5	2.9
Capital lease obligations	16.7	32.2
Long-term debt	525.0	525.0
Other financing arrangements	56.3	60.8
Total liabilities	729.2	710.8
Commitment and contingencies		
Equity		
Preferred stock, $.01 par value, 100,000,000 authorized; no shares issued or outstanding	—	—
Common stock, $.01 par value, 500,000,000 shares authorized and 21,991,669 shares issued and outstanding at December 31, 2013 (Successor)	0.2	—
Common stock, $.01 par value, 1,000 shares authorized and 100 shares issued and outstanding at December 31, 2012 (Predecessor)	—	—
Additional paid in capital	340.7	7.1
Accumulated deficit	(18.9)	—
Partnership capital	—	493.0
Total shareholders' equity/Parent's net investments	322.0	500.1
Noncontrolling interest	455.6	—
Total equity	777.6	500.1
Total liabilities and equity	$1,506.8	$1,210.9

The accompanying notes are an integral part of the consolidated and combined financial statements

CyrusOne Inc.
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(dollars in millions, except per share data)

	Successor	Predecessor		
			Years Ended December 31,	
	January 24, 2013 to December 31, 2013	January 1, 2013 to January 23, 2013	2012	2011
Revenue	$248.4	$15.1	$220.8	$181.7
Costs and expenses:				
Property operating expenses	88.4	4.8	76.0	58.2
Sales and marketing	9.9	0.7	9.7	9.1
General and administrative	26.5	1.5	20.7	12.5
Depreciation and amortization	89.9	5.3	73.4	55.5
Restructuring charges	0.7	—	—	—
Transaction costs	1.3	0.1	5.7	2.6
Transaction-related compensation	—	20.0	—	—
Management fees charged by CBI	—	—	2.5	2.3
Loss on sale of receivables to an affiliate	—	—	3.2	3.5
Asset impairments	2.8	—	13.3	—
Total costs and expenses	219.5	32.4	204.5	143.7
Operating income (loss)	28.9	(17.3)	16.3	38.0
Interest expense	41.2	2.5	41.8	32.9
Other income	(0.1)	—	—	—
Loss on extinguishment of debt	1.3	—	—	1.4
Net (loss) income before income taxes	(13.5)	(19.8)	(25.5)	3.7
Income tax (expense) benefit	(1.9)	(0.4)	5.1	(2.2)
(Loss) income from continuing operations	(15.4)	(20.2)	(20.4)	1.5
(Loss) gain on sale of real estate improvements	(0.2)	—	0.1	—
Net (loss) income	$(15.6)	$(20.2)	$(20.3)	$1.5
Noncontrolling interest in net loss	10.3			
Net loss attributed to common shareholders	$(5.3)			
Basic weighted average common shares outstanding	20.9			
Diluted weighted average common shares outstanding	20.9			
Loss per share - basic and diluted	$(0.28)			

The accompanying notes are an integral part of the consolidated and combined financial statements

9

CyrusOne Inc.
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Successor	Predecessor		
		Year Ended December 31,		
	January 24, 2013 to December 31, 2013	January 1, 2013 to January 23, 2013	2012	2011
Cash flows from operating activities:				
Net (loss) income	$(15.6)	$(20.2)	$(20.3)	$1.5
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation and amortization	89.9	5.3	73.4	55.5
Loss on sale of receivables and other assets	—	—	3.0	3.5
Provision for bad debt write off	0.4	—	0.1	—
Asset impairments	2.8	—	13.3	—
Loss on extinguishment of debt	1.3	—	—	1.4
Noncash interest expense	4.0	0.1	0.3	—
Deferred income tax expense (benefit), including valuation allowance change	0.6	0.3	(4.5)	1.6
Stock-based compensation expense	6.0	0.2	—	—
Changes in operating assets and liabilities, net of effects of acquisitions:				
Increase in receivables and other assets	(15.7)	(9.6)	(24.0)	(3.3)
(Decrease) Increase in accounts payable and accrued expenses	(14.6)	20.5	(0.6)	3.5
(Decrease) Increase in deferred revenues	(0.1)	3.2	3.8	2.3
Increase in payables to related parties	18.4	1.5	—	—
Other	—	0.7	—	—
Net cash provided by operating activities	77.4	2.0	44.5	66.0
Cash flows from investing activities:				
Capital expenditures – acquisitions of real estate	(48.0)	—	(25.4)	(22.4)
Capital expenditures – other	(172.9)	(7.7)	(202.9)	(95.1)
Proceeds from the sale of assets	—	—	0.2	—
Increase in restricted cash	—	—	(11.1)	—
Release of restricted cash	4.4	1.9	4.8	—
Advances (to) from affiliates	—	—	(18.3)	11.6
Other	(0.2)	—	0.1	0.1
Net cash used in investing activities	(216.7)	(5.8)	(252.6)	(105.8)
Cash flows from financing activities:				
Issuance of common stock	360.5	—	—	—
IPO costs	(26.6)	—	—	—
Dividends paid	(31.0)	—	—	—
Borrowings from affiliates, net	—	—	119.8	66.6
Repayment of related party note	—	—	(400.0)	—
Proceeds from issuance of debt	—	—	525.0	—
Payments on capital lease obligations	(5.3)	(0.6)	(9.0)	(7.0)
Payments on financing obligations	(0.7)	—	—	(16.2)

Payment to buyout capital leases	(9.6	) —	—	—

10

Payment to buyout other financing arrangements	(10.2)	—	—	—
Debt issuance costs	(1.3)	—	(17.2)	—
Contributions from/(distributions to) parent, net	—	0.2	5.4	(7.8)
Other	—	—	—	(0.1)
Net cash provided by (used in) by financing activities	275.8	(0.4)	224.0	35.5
Net increase (decrease) in cash and cash equivalents	136.5	(4.2)	15.9	(4.3)
Cash and cash equivalents at beginning of period	12.3	16.5	0.6	4.9
Cash and cash equivalents at end of period	$148.8	$12.3	$16.5	$0.6
Supplemental disclosures				
Cash paid for interest, net of amount capitalized	$40.7	$0.3	$42.4	$33.0
Capitalized interest	1.6	—	2.7	2.6
Noncash investing and financing transactions:				
Acquisition of property in accounts payable and other liabilities	35.8	15.7	7.7	7.6
Acquisition of property by assuming capital lease obligations and other financing arrangements	—	—	11.6	43.7
Assets transferred by parent	—	—	2.0	—
Divisional control contribution funded by settlement of intercompany balances due to Parent	—	—	203.5	—
Contribution receivable from Parent related to transaction-related compensation	—	19.6	—	—
Dividend payable	10.4	—	—	—
Deferred IPO costs	—	1.7	—	—
Deferred IPO costs reclassified to additional paid in capital	9.5	—	—	—
Reclass of equipment to held for sale	0.3	—	—	—
Noncash additions to fixed assets through other financing arrangements	4.0	—	—	—

The accompanying notes are an integral part of the consolidated and combined financial statements

CyrusOne Inc.
CONSOLIDATED AND COMBINED STATEMENTS OF EQUITY
(in millions)

	Common Stock Issued								
	Shares	Amount	Accumulated Deficit	Paid-In Capital	Partnership Capital	Divisional Control	Total Shareholder's Equity/ Parent's Net Investment	Non Controlling Interest	Total Equity
Balance as of January 1, 2011	—	$—	$ —	$—	$ —	$ 317.8	$ 317.8	$ —	$—
Net income	—	—	—	—	—	1.5	1.5	—	—
Distribution to parent	—	—	—	—	—	(7.8)	(7.8)	—	—
Balance as of December 31, 2011	—	$—	$ —	$—	$ —	$ 311.5	$ 311.5	$ —	$—
Divisional Control Transfer	—	—	—	—	311.5	(311.5)	—	—	—
Net loss	—	—	—	—	(20.3)	—	(20.3)	—	—
Issuance of common stock (100 shares at $ .01 par value)	—	—	—	—	—	—	—	—	—
Issuance of partnership units	—	—	—	—	—	—	—	—	—
Contributions from Parent related to settlement of intercompany balances	—	—	—	7.1	196.4	—	203.5	—	—
Other contributions from Parent, net	—	—	—	—	5.4	—	5.4	—	—
Balance as of December 31, 2012	—	$—	$ —	$7.1	$ 493.0	$ —	$ 500.1	$ —	$500.1
Net loss – January 1, 2013 to January 23, 2013	—	—	—	—	(20.2)	—	(20.2)	—	(20.2)
Other contributions from Parent	—	—	—	—	1.3	—	1.3	—	1.3
Contributions from Parent–transaction compensation expense reimbursement	—	—	—	—	19.6	—	19.6	—	19.6
Noncontrolling interest effective January 24, 2013	—	—	—	(7.1)	(493.7)	—	(500.8)	500.8	—
Common stock issued	19.0	0.2	—	336.9	—	—	337.1	—	337.1
Common stock issued to CBI in exchange for operating partnership units	1.5	—	—	—	—	—	—	—	—
Common stock issued to CBI in exchange for settlement of IPO costs paid by CBI	0.4	—	—	7.1	—	—	7.1	(7.1)	—
IPO costs	—	—	—	(9.5)	—	—	(9.5)	—	(9.5)

Restricted shares issued	1.1	—	—	—	—	—	—	—	—
Net loss – January 24, 2013 to December 31, 2013	—	—	(15.6)	—	—	—	(15.6)	—	(15.6)
Noncontrolling interest allocated net loss	—	—	10.3	—	—	—	10.3	(10.3)	—
Stock based compensation	—	—	—	6.2	—	—	6.2	—	6.2
Dividends declared, $0.64 per share	—	—	(13.6)	—	—	—	(13.6)	(27.8)	(41.4)
Balance as of December 31, 2013	22.0	$ 0.2	$ (18.9)	$ 340.7	$ —	$ —	$ 322.0	$ 455.6	$ 777.6

The accompanying notes are an integral part of the consolidated and combined financial statements

CyrusOne LP
CONSOLIDATED AND COMBINED BALANCE SHEETS
(dollars in millions)

	Successor As of December 31, 2013	Predecessor As of December 31, 2012
Assets		
Investment in real estate:		
Land	$89.3	$44.5
Buildings and improvements	783.7	722.5
Equipment	190.2	52.4
Construction in progress	57.3	64.2
Subtotal	1,120.5	883.6
Accumulated depreciation	(236.7)	(176.7)
Net investment in real estate	883.8	706.9
Cash and cash equivalents	148.8	16.5
Rent and other receivables, net of allowance for doubtful accounts of $0.5 and $0.3 as of December 31, 2013, and December 31, 2012, respectively	41.2	33.2
Restricted cash	—	6.3
Goodwill	276.2	276.2
Intangible assets, net of accumulated amortization of $55.1 and $38.2 as of December 31, 2013, and December 31, 2012	85.9	102.6
Due from affiliates	0.6	2.2
Other assets	70.3	59.1
Total assets	$1,506.8	$1,203.0
Liabilities and parent’s net investment		
Accounts payable and accrued expenses	$66.8	$36.3
Deferred revenue	55.9	52.8
Due to affiliates	8.5	2.9
Capital lease obligations	16.7	32.2
Long-term debt	525.0	525.0
Other financing arrangements	56.3	60.8
Total liabilities	729.2	710.0
Commitment and contingencies		
Parent’s net investment:		
Partnership capital	777.6	493.0
Total liabilities and partnership capital	$1,506.8	$1,203.0

The accompanying notes are an integral part of the consolidated and combined financial statements

13

CyrusOne LP
CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS
(dollars in millions)

	Successor	Predecessor	Years Ended December 31,	
	January 24, 2013 to December 31, 2013	January 1, 2013 to January 23, 2013	2012	2011
Revenue	$248.4	$15.1	$220.8	$181.7
Costs and expenses:				
Property operating expenses	88.4	4.8	76.0	58.2
Sales and marketing	9.9	0.7	9.7	9.1
General and administrative	26.5	1.5	20.7	12.5
Depreciation and amortization	89.9	5.3	73.4	55.5
Restructuring charges	0.7	—	—	—
Transaction costs	1.3	0.1	5.7	2.6
Transaction-related compensation	—	20.0	—	—
Management fees charged by CBI	—	—	2.5	2.3
Loss on sale of receivables to an affiliate	—	—	3.2	3.5
Asset impairments	2.8	—	13.3	—
Total costs and expenses	219.5	32.4	204.5	143.7
Operating income (loss)	28.9	(17.3)	16.3	38.0
Interest expense	41.2	2.5	41.8	32.9
Other income	(0.1)	—	—	—
Loss on extinguishment of debt	1.3	—	—	1.4
Net (loss) income before income taxes	(13.5)	(19.8)	(25.5)	3.7
Income tax (expense) benefit	(1.9)	(0.4)	5.1	(2.2)
(Loss) income from continuing operations	(15.4)	(20.2)	(20.4)	1.5
(Loss) gain on sale of real estate improvements	(0.2)	—	0.1	—
Net (loss) income	$(15.6)	$(20.2)	$(20.3)	$1.5

The accompanying notes are an integral part of the consolidated and combined financial statements

14

CyrusOne LP
CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(dollars in millions)

	Successor	Predecessor		
		Year Ended December 31,		
	January 24, 2013 to December 31, 2013	January 1, 2013 to January 23, 2013	2012	2011
Cash flows from operating activities:				
Net (loss) income	$(15.6)	$(20.2)	$(20.3)	$1.5
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation and amortization	89.9	5.3	73.4	55.5
Loss on sale of receivables and other assets	—	—	3.0	3.5
Provision for bad debt write off	0.4	—	0.1	—
Asset impairments	2.8		13.3	—
Loss on extinguishment of debt	1.3	—	—	1.4
Noncash interest expense	4.0	0.1	0.3	—
Deferred income tax expense (benefit), including valuation allowance change	0.6	0.3	(4.5)	1.6
Stock-based compensation expense	6.0	0.2	—	—
Changes in operating assets and liabilities, net of effects of acquisitions:				
Increase in receivables and other assets	(15.7)	(9.6)	(16.1)	(3.3)
(Decrease) increase in accounts payable and accrued expenses	(14.6)	20.5	(1.4)	3.5
(Decrease) increase in deferred revenues	(0.1)	3.2	3.8	2.3
Increase (decrease) in payables to related parties	18.4	1.5	—	—
Other	—	0.7	—	—
Net cash provided by operating activities	77.4	2.0	51.6	66.0
Cash flows from investing activities:				
Capital expenditures – acquisitions of real estate	(48.0)	—	(25.4)	(22.4)
Capital expenditures – other	(172.9)	(7.7)	(202.9)	(95.1)
Proceeds from the sale of assets	—	—	0.2	—
Increase in restricted cash	—	—	(11.1)	—
Release of restricted cash	4.4	1.9	4.8	—
Advances (to) from affiliates	—	—	(18.3)	11.6
Other	(0.2)	—	0.1	0.1
Net cash used in investing activities	(216.7)	(5.8)	(252.6)	(105.8)
Cash flows from financing activities:				
Issuance of partnership units	333.9	—	—	—
Distributions paid	(31.0)	—	—	—
Borrowings from affiliates, net	—	—	119.8	66.6
Repayment of related party note	—	—	(400.0)	—
Proceeds from issuance of debt	—	—	525.0	—
Payments on capital lease obligations	(5.3)	(0.6)	(9.0)	(7.0)
Payments on financing obligations	(0.7)	—	—	(16.2)
Payments to buyout capital leases	(9.6)	—	—	—

15

Payment to buyout other financing arrangements	(10.2)	—	—	—
Debt issuance costs	(1.3)	—	(17.2)	—
Contributions to/(distributions from) parent, net	—	0.2	(1.7)	(7.8)
Other	—	—	—	(0.1)
Net cash provided by (used in) by financing activities	275.8	(0.4)	216.9	35.5
Net increase (decrease) in cash and cash equivalents	136.5	(4.2)	15.9	(4.3)
Cash and cash equivalents at beginning of period	12.3	16.5	0.6	4.9
Cash and cash equivalents at end of period	$148.8	$12.3	$16.5	$0.6
Supplemental disclosures				
Cash paid for interest, net of amount capitalized	$40.7	$0.3	$42.4	$33.0
Cash paid for interest	1.6	—	2.7	2.6
Noncash investing and financing transactions:				
Acquisition of property in accounts payable and other liabilities	35.8	15.7	7.7	7.6
Acquisitions of property by assuming capital lease obligations and other financing arrangements	—	—	11.6	43.7
Contribution receivable from Parent related to transaction-related compensation	—	19.6	—	—
Distribution payable	10.4	—	—	—
Other contributions from Parent	1.3	1.7	—	—
Non-cash distribution to CyrusOne Inc.	2.4	—	—	—
Assets transferred to Parent	—	—	2.0	—
Divisional control contribution funded by settlement of intercompany balances due to Parent	—	—	196.4	—
Reclass of equipment to held for sale	0.3	—	—	—
Noncash additions to fixed assets through other financing arrangements	4.0	—	—	—

The accompanying notes are an integral part of the consolidated and combined financial statements

CyrusOne LP
CONSOLIDATED AND COMBINED STATEMENTS OF PARTNERSHIP CAPITAL
(in millions)

	Partnership Units	Partnership Capital	Divisional Control
Balance January 1, 2011	$—	$—	$317.8
Net Income	—	—	1.5
Distribution to CBI	—	—	(7.8)
Balance December 31, 2011	$—	$—	$311.5
Divisional Control Transfer from CBI	—	311.5	(311.5)
Net Loss	—	(20.3)	—
Issuance of Partnership units	123.6	—	—
Contributions from CBI related to settlement of intercompany balances	—	196.4	—
Other contributions from Parent, net	—	5.4	—
Balance December 31, 2012	$123.6	$493.0	$—
Net loss—January 1, 2013, to January 23, 2013	—	(20.2)	—
Contributions from Parent—transaction-compensation expense reimbursement	—	19.6	—
Other contributions from Parent	—	1.3	—
Distribution to CyrusOne Inc.	—	(2.4)	—
Partnership reverse unit split 2.8 to 1	(79.5)	—	—
Partnership units exchanged by CBI for common stock in CyrusOne Inc.	(1.5)	—	—
Partnership units issued to CyrusOne Inc.	22.0	337.1	—
Compensation expense of CyrusOne Inc. allocated to Partnership	—	6.2	—
Net loss—January 24, 2013, to December 31, 2013	—	(15.6)	—
Partnership distributions declared	—	(41.4)	—
Balance at December 31, 2013	$64.6	$777.6	$—

The accompanying notes are an integral part of the consolidated and combined financial statements

17

CyrusOne Inc. and CyrusOne LP
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS

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

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

2. Formation
Prior to November 20, 2012, CyrusOne was not an operative legal entity or a combination of legal entities. The accompanying combined financial statements of CyrusOne for such periods represent the data center assets and operations owned by Cincinnati Bell, Inc. (“CBI”) and, unless the context otherwise requires, its consolidated subsidiaries which historically have been maintained in various legal entities, some of which had significant unrelated business activities. The accompanying financial statements for such periods have been “carved out” of CBI’s consolidated financial statements and reflect significant assumptions and allocations. The combined financial statements do not fully reflect what the financial position, results of operations and cash flows would have been had these operations 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.

On November 20, 2012, the Operating Partnership received a contribution of interests in real estate properties and the assumption of debt and other specified liabilities from CBI in exchange for the issuance of 123,688,687 operating partnership units to CBI.

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

As of December 31, 2013, the total number of outstanding partnership units was 64.6 million, and CBI holds a 65.9% ownership in the Operating Partnership.

3. Basis of Presentation
The accompanying financial statements as of December 31, 2012 and for the period ended January 23, 2013 and the years ended December 31, 2012 and 2011, were prepared on a combined basis using CBI’s historical basis in the assets and liabilities of its data center business and are presented as the “Predecessor” financial statements. The Predecessor

financial statements include all revenues, costs, assets and liabilities directly attributable to the data center business. In addition, certain expenses reflected in the Predecessor financial statements include allocations of corporate expenses from CBI, which in the opinion of management are reasonable but do not necessarily reflect what CyrusOne’s financial position, results of operations and cash flows would have been had been had CyrusOne been a stand-alone company during these respective periods. As a result, the Predecessor financial information is not necessarily indicative of CyrusOne’s future results of operations, financial position and cash flows. The financial statements as of December 31, 2013 and for the period from January 24, 2013 to December 31, 2013 are prepared on a consolidated basis and are presented as the “Successor” financial statements.

In addition, the accompanying consolidated and combined balance sheets reflect a reclassification of certain financial statement accounts. We have combined 'other liabilities' with 'accounts payable and accrued expenses' as of December 31, 2012 and 2011 to conform to the 2013 presentation. We believe combining them more accurately reflects the nature of these accounts.

CyrusOne Inc. and CyrusOne LP
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS - (continued)

4. Significant Accounting Policies
Use of Estimates—Preparation of the consolidated and combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated and combined financial statements and accompanying notes. These estimates and assumptions are based on management's knowledge of current events and actions that we may undertake in the future. Estimates are used in determining the fair value of leased real estate, the useful lives of real estate and other long-lived assets, future cash flows associated with goodwill and other long-lived asset impairment testing, deferred tax assets and liabilities and loss contingencies. Estimates were also utilized in the determination of historical allocations of shared employees' payroll, benefits and incentives and management fees. Actual results may differ from these estimates and assumptions.
Investments in Real Estate—Investments in real estate consist of land, buildings, improvements and integral equipment utilized in our data center operations. Real estate acquired from third parties has been recorded at its acquisition cost. Real estate acquired from CBI and its affiliates has been recorded at its historical cost basis. Additions and improvements, which extend an asset's useful life or increase its functionality, are capitalized and depreciated over the asset's remaining life. Maintenance and repairs are expensed as incurred.

When we are involved in the construction of structural improvements to leased property, we are deemed the accounting owner of the leased real estate. In these instances, we bear substantially all the construction period risk, including managing or funding construction. These transactions generally do not qualify for sale-leaseback accounting due to our continued involvement in these data center operations. At inception, the fair value of the real estate, which generally consists of a building shell, and our associated obligation is recorded as construction in progress. As construction progresses, the value of the asset and obligation increases by the fair value of the structural improvements. When construction is complete, the asset is placed in service and depreciation commences. Leased real estate is depreciated to the lesser of (i) its estimated fair value at the end of the term or (ii) the expected amount of the unamortized obligation at the end of the term. As of December 31, 2013, and 2012, leased assets, where we are deemed the accounting owner, were $56.3 million and $60.8 million, respectively. The associated obligation is presented as other financing arrangements in the accompanying consolidated and combined balance sheets.
When we are not deemed the accounting owner, we further evaluate leased real estate to determine whether the lease should be classified as a capital or operating lease. One of the following four characteristics must be present to classify a lease as a capital lease: (i) the lease transfers ownership of the property to the lessee by the end of the lease term, (ii) the lease contains a bargain purchase option, (iii) the lease term is equal to 75% or more of the estimated economic life of the leased property or (iv) the net present value of the lease payments are at least 90% of the fair value of the leased property. As of December 31, 2013, and 2012, capital lease assets included in investment in real estate were $40.8 million and $61.4 million, respectively.
Construction in progress includes direct and indirect expenditures for the construction and expansion of our data centers and is stated at its acquisition cost. Independent contractors perform substantially all of the construction and expansion efforts of our data centers. Construction in progress includes costs incurred under construction contracts including project management services, engineering and schematic design services, design development, construction services and other construction-related fees and services. Interest, property taxes and certain labor costs are also capitalized during the construction of an asset. Capitalized interest in 2013, 2012, and 2011 was $1.6 million, $2.7 million, and $2.6 million, respectively. These costs are depreciated over the estimated useful life of the related assets.
Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Useful lives range from 9 to 48 years for buildings, 3 to 25 years for building improvements, and 3 to 5 years for equipment. Leasehold improvements are amortized over the shorter of the asset's useful life or the remaining lease term, including renewal options which are reasonably assured.
Management reviews the carrying value of long-lived assets, including intangible assets with finite lives, when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Examples of such indicators may include a significant adverse change in the extent to which or manner in which the property is being

used, an accumulation of costs significantly in excess of the amount originally expected for acquisition or development, or a history of operating or cash flow losses. When such indicators exist, we review an estimate of the undiscounted future cash flows expected to result from the use of an asset (or group of assets) and its eventual disposition and compare such amount to its carrying amount. We consider factors such as future operating income, leasing demand, competition and other factors. If our undiscounted net cash flows indicate that we are unable to recover the carrying value of the asset, an impairment loss is recognized. An impairment loss is measured as the amount by which the asset's carrying value exceeds its estimated fair value.

Impairment exists when the Company's net book value of real estate assets is greater than the estimated fair value. For the years ended December 31, 2013 and 2012, we recognized impairments of $2.8 million and $11.8 million, respectively. No such impairments were recognized in 2011.

Cash and Cash Equivalents—Cash and cash equivalents include all non-restricted cash held in financial institutions and other non-restricted highly liquid short-term investments with original maturities at acquisition of three months or less.

Restricted Cash—Restricted cash consists of funds held in escrow to fund construction.

Goodwill—Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with business acquisitions. We perform impairment testing of goodwill, at the reporting unit level, on an annual basis or more frequently if indicators of potential impairment exist.

The fair value of our reporting unit was determined using a combination of market-based valuation multiples for comparable businesses and discounted cash flow analysis based on internal financial forecasts incorporating market participant assumptions. No impairments have been recognized through December 31, 2013.

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

For the year ended December 31, 2012, we recognized an impairment of $1.5 million related to the impairment of customer relationships. No such impairment was recognized in 2013 or 2011.

Receivables—Receivables consist principally of trade receivables from customers, are generally unsecured and are due within 30 to 120 days. Unbilled receivables arise from services rendered but not yet billed. Expected credit losses associated with trade receivables are recorded as an allowance for uncollectible accounts. The allowance for uncollectible accounts is estimated based upon historic patterns of credit losses for aged receivables as well as specific provisions for certain identifiable, potentially uncollectible balances. When internal collection efforts on accounts have been exhausted, the accounts are written off and the associated allowance for uncollectible accounts is reduced. The Company has receivables with one customer that exceeds 10% of the Company’s outstanding accounts receivable balance at December 31, 2013. There were two customers that exceeded 10% of the Company’s outstanding accounts receivables balance at December 31, 2012.

Prior to October 1, 2012, we sold most of our trade and other accounts receivable without recourse to Cincinnati Bell Funding LLC (“CBF”), a bankruptcy-remote subsidiary of CBI, at a 2.5% discount to the receivables’ face value. Cincinnati Bell Technology Solutions ("CBTS"), a wholly-owned subsidiary of CBI, and Cyrus Networks LLC (“Cyrus Networks”) began selling their receivables to CBF in March 2009 and June 2011, respectively. The transfer of these assets qualified as a sale pursuant to Accounting Standards Codification (“ASC”) 860-10, Transfers of Financial Assets, as these receivables had been isolated from the Predecessor and its creditors. The Predecessor continued to service these receivables and received a fee for this service. Effective October 1, 2012, we terminated our participation in this program.

As of December 31, 2013, receivables were $41.7 million, and the allowance for uncollectible accounts was $0.5 million. The December 31, 2012 receivables were $33.5 million, and the allowance for uncollectible accounts was $0.3 million.

Deferred Costs—Deferred costs include both deferred leasing costs and deferred financing costs. Deferred costs are presented with other assets in the accompanying consolidated and combined balance sheets. Leasing commissions incurred at the commencement of a new lease are capitalized and amortized over the term of the customer lease. Amortization of deferred leasing costs is presented with depreciation and amortization in the accompanying consolidated and combined statements of operations. If a lease terminates prior to the expected term of the lease, the remaining unamortized cost is written off to amortization expense.

Deferred financing costs include costs incurred in connection with issuance of debt and the revolving credit agreement. These financing costs are capitalized and amortized over the term of the debt or revolving credit agreement and are included as a component of interest expense.

CyrusOne Inc. and CyrusOne LP
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS - (continued)

Other Financing Arrangements—Other financing arrangements represent leases of real estate where we are involved in the construction of structural improvements to develop buildings into data centers. When we bear substantially all the construction period risk, such as managing or funding construction, we are deemed to be the accounting owner of the leased property and, at the lease inception date, we are required to record at fair value the property and associated liability on our consolidated and combined balance sheet. These transactions generally do not qualify for sale-leaseback accounting due to our continued involvement in these data center operations.

Revenue Recognition—Colocation rentals are generally billed monthly in advance, and some contracts have escalating payments over the term of the contract. If rents escalate without the lessee gaining access to or control over additional leased space or power, and the lessee takes possession of, or controls the physical use of the property (including all contractually committed power) at the beginning of the lease term, the rental payments by the lessee are recognized as revenue on a straight-line basis over the term of the lease. If rents escalate because the lessee gains access to and control over additional leased space or power, revenue is recognized in proportion to the additional space or power in the years that the lessee has control over the use of the additional space or power. The excess of revenue recognized over amounts contractually due is recognized in other assets in the accompanying consolidated and combined balance sheets. As of December 31, 2013 and 2012, straight-line rents receivable was $25.5 million and $14.5 million, respectively.

Some of our leases are structured on a full-service gross basis in which the customer pays a fixed amount for both colocation rental and power. Other leases provide that the customer will be billed for power based upon actual usage which is separately metered. In both cases, this revenue is presented on a gross basis in the accompanying consolidated and combined statements of operations. Power is generally billed one month in arrears, and an estimate of this revenue is accrued in the month that the associated costs are incurred. We generally are not entitled to reimbursements for real estate taxes, insurance or other operating expenses.

Revenue is recognized for services or products that are deemed separate units of accounting. When a customer makes an advance payment, which is not deemed a separate unit of accounting, deferred revenue is recorded. This revenue is recognized ratably over the expected term of the lease, unless the pattern of service suggests otherwise. As of December 31, 2013 and 2012, deferred revenue was $55.9 million and $52.8 million, respectively.

Certain customer contracts require specified levels of service or performance. If we fail to meet these service levels, our customers may be eligible to receive credits on their contractual billings. These credits are recognized against revenue when an event occurs that gives rise to such credits. Customer credits were insignificant for the year ended December 31, 2013.

Property Operating Expenses—Property operating expenses generally consist of electricity, salaries and benefits of data center operations personnel, real estate taxes, security, rent, insurance and other site operating and maintenance costs.

General and Administrative Expenses —General and administrative expenses consist of salaries and benefits of senior management and support functions, legal costs and consulting costs.

Sales and Marketing Expense—Sales and marketing expense is comprised of compensation and benefits associated with sales and marketing personnel as well as advertising and marketing costs. Costs related to advertising are expensed as incurred and amounted to $2.1 million for the period ended December 31, 2013, $0.1 million, for the period ended January 23, 2013, and $2.9 million and $1.4 million for the year ended December 31, 2012 and 2011, respectively.

Depreciation and Amortization Expense—Depreciation expense is recognized over the estimated useful lives of real estate applying the straight-line method. The useful life of leased real estate and leasehold improvements is the lesser of the economic useful life of the asset or the term of the lease, including optional renewal periods if renewal of the lease is reasonably assured. The residual value of leased real estate is estimated as the lesser of (i) the expected fair value of the asset at the end of the lease term or (ii) the expected amount of the unamortized liability at the end of the lease term. Depreciation expense was $70.3 million for the period ended December 31, 2013, $4.1 million for the period ended January 23, 2013, and $54.5 million and $39.1 million for the year ended December 31, 2012 and 2011, respectively.

Amortization expense is recognized over the estimated useful lives of finite-lived intangibles. An accelerated method of amortization is utilized to amortize our customer relationship intangible, consistent with the benefit expected to be derived from this asset. We amortize trademarks, favorable leasehold interests, deferred leasing costs and deferred sales commissions, over their estimated useful lives. The estimated useful life of trademarks and customer relationships is eight to 15 years. The favorable leasehold interest is being amortized over the remaining lease term of 56 years. Deferred leasing costs are amortized over three to five years. Amortization expense was $19.6 million for the period ended December 31, 2013, $1.2 million for the period ended January 23, 2013, and $18.9 million and $16.4 million for the year ended December 31, 2012 and 2011, respectively.

Transaction Costs—Transaction costs represent legal, accounting and professional fees incurred in connection with the formation transactions, our qualification as a REIT and potential business combinations. Transaction costs are expensed as incurred.

Restructuring Charges—Restructuring charges are a result of programs planned and controlled by management that materially changes either the scope of business undertaken or the manner in which that business is conducted. The 2013 restructuring charges were incurred as a result of moving certain administrative functions to the Company's corporate office. There were no such charges in 2012 or 2011.

Transaction-Related Compensation—During the period ended January 23, 2013, the Company received an allocated compensation charge from CBI of $20.0 million for the settlement of its long-term incentive plan associated with the completion of the IPO. The amount was determined by CBI and allocated to CyrusOne Inc. on January 23, 2013, and reflected as expense and contributed capital in the respective period.

Operating and Transactional Taxes—Certain operating taxes, such as property, sales, use and value added taxes, are reported as expenses in operating income. These taxes are not included in income tax expense because the amounts to be paid are not dependent on the level of income generated. We also record operating expenses for the establishment of liabilities related to certain operating tax audit exposures. These liabilities are established based on our assessment of the probability of payment. Upon resolution of an audit, any remaining liability not paid is released and increases operating income.

Income Taxes—The Company was included in CBI’s consolidated Texas tax return for all Predecessor periods. In the accompanying financial statements, the Predecessor periods reflect income taxes as if the Company was a separate stand-alone company. The income tax provision consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods. CyrusOne Inc. will elect to be taxed as a REIT under the Code, as amended, by making our REIT election upon the filing of our 2013 REIT federal income tax return. Provided we qualify for taxation as a REIT and continue to meet the various qualification tests mandated under the Code, we are generally not subject to corporate level federal income tax on the earnings distributed currently to our shareholders. If we fail to qualify as a REIT in any taxable year, our taxable income will be subject to federal income tax at regular corporate rates and any applicable alternative minimum tax.

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

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

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction as well as various foreign, state and local jurisdictions. The Company's previous tax filings are subject to normal reviews by regulatory agencies until the related statute of limitations expires. With a few exceptions, the Company is no longer subject to U. S. federal, state or local examinations for years prior to 2010 and we have no liabilities for uncertain tax positions as of December 31, 2013.

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

Comprehensive Income (Loss)—Comprehensive income (loss) represents the change in net assets of a company from transactions and other events from non-owner sources. Comprehensive income (loss) comprises all components of net income and all components of other comprehensive income. As components of other comprehensive income (loss) were immaterial for all periods presented, comprehensive income (loss) is not presented. Comprehensive income (loss) was equal to our net income (loss) in 2013, 2012 and 2011.

Earnings per Share—For all periods subsequent to January 23, 2013, we present earnings per share (“EPS”) data. Basic EPS includes only the weighted average number of common shares outstanding during the period. Diluted EPS includes the weighted average number of common shares and the dilutive effect of stock options, restricted stock and share unit awards and convertible subordinated notes outstanding during the period, when such instruments are dilutive.

CyrusOne Inc. and CyrusOne LP
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS - (continued)

All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are treated as participating in undistributed earnings with common shareholders. Awards of this nature are considered participating securities and the two-class method of computing basic and diluted EPS must be applied.
Business Combinations—In accounting for business combinations, we apply the accounting requirements of ASC 805, Business Combinations, which requires the recording of net assets of acquired businesses at fair value. In developing estimates of fair value of acquired assets and assumed liabilities, management analyzed a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates, current replacement cost for fixed assets and market rate assumptions for contractual obligations. Such a valuation requires management to make significant estimates and assumptions, particularly with respect to the intangible assets. Acquisition costs are expensed as incurred.
Related Party Transactions—CBI provided us with a variety of services. Cost allocation methods which were employed to determine the costs to be recognized in the accompanying combined financial statements included the following:
•Specific identification—Applied when amounts were specifically identifiable to our operations.
•Reasonable allocation method—When amounts were not clearly or specifically identifiable to our operations, management applied a reasonable allocation method.
Insurance Programs—CBI provided the Predecessor with coverage for certain employee health care benefits as well as losses incurred related to general liability, workers' compensation and automobile claims. CBI has purchased third-party insurance policies for these risks and is self-insured up to certain limits. Our portion of CBI's self-insured insurance expense has been determined based on its historical experience of paid claims. Since the completion of our IPO, we have adopted our own insurance policy program through third party providers.
Stock-Based Compensation—For all the Predecessor periods presented, some of our employees participated in CBI's stock-based compensation plans. CBI valued all share-based payments to employees at fair value on the date of grant and expensed this amount over the applicable vesting period. The fair value of stock options and stock appreciation rights was determined using the Black-Scholes option-pricing model using assumptions such as volatility, risk-free interest rate, holding period and expected dividends. The fair value of stock awards was based upon the closing market price of CBI's common stock on the date of grant. For all share-based awards, a forfeiture rate was estimated based upon historical forfeiture patterns. The forfeiture rate reduced the total fair value of the awards that was recognized as compensation expense. For graded vesting awards, CBI's policy was to recognize compensation expense on a straight-line basis over the vesting period. Certain employees were granted awards, which were indexed to the change in CBI's common stock price. The accompanying consolidated and combined financial statements include an allocation of stock-based compensation costs for awards granted to our employees. Upon completion of the IPO, all awards held by our employees were either terminated and settled by CBI or vesting was accelerated.

In conjunction with the IPO, our Board of Directors adopted the 2012 Long-Term Incentive Plan ("LTIP Plan"). The LTIP Plan is administered by the Board of Directors, or the plan administrator. Awards issuable under the LTIP Plan include common stock, restricted stock, stock options and other incentive awards. The awards under the LTIP Plan include the following:

Restricted Shares - On January 24, 2013, CyrusOne Inc. issued approximately 1 million restricted shares to its employees, officers and members of the Company's board of directors in conjunction with CyrusOne's IPO. These restricted shares will generally vest at the end of three years with a per share grant price of $19.

Performance and Market Based Awards - On April 17, 2013, the Company issued performance and market based awards in the form of options and restricted stock to certain employees and officers of the Company. Fifty percent of the restricted shares and stock options will vest annually based upon achieving certain performance criteria. The other fifty percent of the restricted shares and stock options will vest at the end of three years if certain market conditions are met. The fair value of these awards were determined using the Black-Scholes or Monte-Carlo model which use assumptions such as volatility, risk-free interest rate, and expected term of the awards. See Note 16 for additional details relating to these awards.

Compensation expense for these awards will be recognized over the vesting period.

Fair Value Measurements—Fair value measurements are utilized in accounting for business combinations and testing of goodwill and other long-lived assets for impairment. Fair value of financial and non-financial assets and liabilities is defined as
an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The three-tier hierarchy for inputs used in measuring fair value, which prioritizes the inputs used in the methodologies of measuring fair value for asset and liabilities, is as follows:

Level 1—Observable inputs for identical instruments such as quoted market prices;
Level 2—Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs); and
Level 3—Unobservable inputs that reflect our determination of assumptions that market participants would use in pricing the asset or liability. These inputs are developed based on the best information available, including our own data.
Business Segments—Business segments are components of an enterprise for which separate financial information is available and regularly viewed by the chief operating decision maker to assess performance and allocate resources. Our chief operating decision maker, the Company's CEO, reviews our financial information on an aggregate basis. Furthermore, our data centers have similar economic characteristics and customers across all geographic locations, our service offerings have similar production processes, deliver services in a similar manner and use the same types of facilities and similar technologies. As a result, we have concluded that we have one reportable operating segment.

5. Recently Issued Accounting Standards

In February, 2013, the Financial Accounting Standards Board ("FASB") issued amendments to provide guidance on the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in GAAP. The amendments are effective for fiscal years and interim periods within those years, beginning after December 15, 2013. The Company does not believe the adoption of this guidance will have a material impact on the Company’s financial statements.

CyrusOne Inc. and CyrusOne LP
NOTES TO CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS - (continued)

6. Investment in Real Estate
A schedule of our gross investment in real estate follows: