Adaptimmune Therapeutics PLC
Form 10-Q
May 12, 2016
Table of Contents

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 2016**

**OR**

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

**Commission File Number 001-37368**

# ADAPTIMMUNE THERAPEUTICS PLC

(Exact name of Registrant as specified in its charter)

| **England and Wales** | **Not Applicable** |
|---|---|

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

**101 Park Drive, Milton Park**

**Abingdon, Oxfordshire OX14 4RY**

**United Kingdom**

**(44) 1235 430000**

(Address of principal executive offices)

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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. x Yes o No

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). x Yes o No

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer x | 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). o Yes x No

As of May 11, 2016 the number of outstanding ordinary shares par value £0.001 per share of the Registrant is 424,711,900.

Table of Contents

**TABLE OF CONTENTS**


| | | |
|---|---|---|
| **PART I FINANCIAL INFORMATION** | | |
| Item 1. | Financial Statements: | |
| | (Unaudited) Condensed Consolidated Balance Sheets as of March 31, 2016 and December 31, 2015 | 5 |
| | (Unaudited) Condensed Consolidated Statement of Operations for the three months ended March 31, 2016 and 2015 | 6 |
| | (Unaudited) Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2016 and 2015 | 7 |
| | (Unaudited) Condensed Consolidated Statements of Changes in Equity for the three months ended March 31, 2016 | 8 |
| | (Unaudited) Condensed Consolidated Cash Flow Statements for the three months ended March 31, 2016 and 2015 | 9 |
| | Notes to the Condensed Consolidated Financial Statements | 10 |
| Item 2. | Management s Discussion and Analysis of Financial Condition and Results of Operations | 24 |
| Item 3. | Quantitative and Qualitative Disclosures About Market Risk | 32 |
| Item 4. | Controls and Procedures | 32 |
| **PART II OTHER INFORMATION** | | |
| Item 1. | Legal Proceedings | 33 |
| Item 1A. | Risk Factors | 33 |
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 69 |
| Item 3. | Defaults Upon Senior Securities | 69 |
| Item 4. | Mine Safety Disclosures | 69 |
| Item 5. | Other Information | 69 |
| Item 6. | Exhibits | 69 |
| Signatures | | 74 |

Table of Contents

**General information**

In this Quarterly Report on Form 10-Q ( Quarterly Report ), Adaptimmune, the Group, the Company, we, us and our refer to Adaptimm Therapeutics plc and its consolidated subsidiaries, except where the context otherwise requires. Adaptimmune® is a registered trademark of Adaptimmune and SPEAR is a trademark of Adaptimmune (registration pending).

**Information Regarding Forward-Looking Statements**

This Quarterly Report contains forward-looking statements that are based on our current expectations, assumptions, estimates and projections about us and our industry. All statements other than statements of historical fact in this Quarterly Report are forward-looking statements.

These forward-looking statements are subject to known and unknown risks, uncertainties, assumptions and other factors that could cause our actual results of operations, financial condition, liquidity, performance, prospects, opportunities, achievements or industry results, as well as those of the markets we serve or intend to serve, to differ materially from those expressed in, or suggested by, these forward-looking statements. These forward-looking statements are based on assumptions regarding our present and future business strategies and the environment in which we expect to operate in the future. Important factors that could cause those differences include, but are not limited to:

- our ability to advance our NY-ESO SPEARTM T-cells to a point where GlaxoSmithKline, or GSK, exercises the option to license the product;

- our ability to successfully advance our MAGE-A10 and AFP SPEAR T-cells through clinical development;

- the success, cost and timing of our product development activities and clinical trials;

- our ability to successfully advance our SPEAR T-cell technology platform to improve the safety and effectiveness of our existing SPEAR T-cell candidates and to submit Investigational New Drug Applications, or INDs, for new SPEAR T-cell candidates;

- the rate and degree of market acceptance of T-cell therapy generally and of our SPEAR T-cells;

- government regulation and approval, including, but not limited to, the expected regulatory approval timelines for TCR therapeutic candidates;

- patents, including, any inability to obtain third party licenses, legal challenges thereto or enforcement of patents against us;

- the level of pricing and reimbursement for our SPEAR T-cells;

- general economic and business conditions or conditions affecting demand for our SPEAR T-cells in the markets in which we operate, both in the United States and internationally;

- volatility in equity markets in general and in the biopharmaceutical sector in particular;

- fluctuations in the price of materials and bought-in components;

- our relationships with suppliers and other third-party providers;

- increased competition from other companies in the biotechnology and pharmaceutical industries;

- claims for personal injury or death arising from the use of our SPEAR T-cell candidates;

- changes in our business strategy or development plans, and our expected level of capital expenses;

- our ability to attract and retain qualified personnel;

- regulatory, environmental, legislative and judicial developments including a regulatory requirement to place any clinical trials on hold or to suspend any trials;

Table of Contents

- a change in our status as an emerging growth company under the JOBS Act;

- a change in our status from reporting as a foreign private issuer to reporting as a U.S. domestic company now using Securities Act and Exchange Act U.S. domestic company forms; and

- additional factors that are not known to us at this time.

Additional factors that could cause actual results, financial condition, liquidity, performance, prospects, opportunities, achievements or industry results to differ materially include, but are not limited to, those discussed under Risk Factors in Part II, Item 1A in this Quarterly Report on Form 10-Q and in our other filings with the SEC. Additional risks that we may currently deem immaterial or that are not presently known to us could also cause the forward-looking events discussed in this Quarterly Report not to occur. The words believe, may, will, estimate, continue, anticipate, intend, expect and similar words are intended to identify estimates and forward-looking statements. Estimates and forward-looking statements speak only at the date they were made, and we undertake no obligation to update or to review any estimate and/or forward-looking statement because of new information, future events or other factors. Estimates and forward-looking statements involve risks and uncertainties and are not guarantees of future performance. Our future results may differ materially from those expressed in these estimates and forward-looking statements. In light of the risks and uncertainties described above, the estimates and forward-looking statements discussed in this Quarterly Report might not occur, and our future results and our performance may differ materially from those expressed in these forward-looking statements due to, inclusive of, but not limited to, the factors mentioned above. Because of these uncertainties, you should not make any investment decision based on these estimates and forward-looking statements.

Table of Contents

**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**ADAPTIMMUNE THERAPEUTICS PLC**

**(UNAUDITED) CONDENSED CONSOLIDATED BALANCE SHEETS**

**(in thousands, except share data)**

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 163,766 | $ 194,263 |
| Short-term deposits | 62,337 | 54,620 |
| Accounts receivable, net of allowance for doubtful accounts of $- and $- (including $1,000 (2015: $2,000) due from related parties) | 1 | 744 |
| Other current assets and prepaid expenses (including current portion of clinical materials) | 12,457 | 13,420 |
| **Total current assets** | 238,561 | 263,047 |
| | | |
| Restricted cash | 4,413 | 4,508 |
| Clinical materials | 3,601 | 4,736 |
| Property, plant and equipment, net | 13,845 | 13,225 |
| Intangibles, net | 1,140 | 305 |
| | | |
| **Total assets** | $ 261,560 | $ 285,821 |
| | | |
| **Liabilities and Stockholders equity** | | |
| **Current liabilities** | | |
| Accounts payable | $ 2,440 | $ 7,884 |
| Accrued expenses and other accrued liabilities (including $229,000 (2015: $288,000) due to related parties) | 5,321 | 7,518 |
| Deferred revenue | 12,077 | 12,487 |
| **Total current liabilities** | 19,838 | 27,889 |
| | | |
| Deferred revenue, less current portion | 22,776 | 22,939 |
| | | |
| **Total liabilities** | 42,614 | 50,828 |
| | | |
| **Contingencies and commitments Note 7** | | |
| | | |
| **Equity** | | |
| Common stock - Ordinary shares par value £0.001, 574,711,900 authorized and 424,711,900 issued and outstanding (2015: 574,711,900 authorized and 424,711,900 issued and outstanding) | 682 | 682 |
| Additional paid in capital | 334,437 | 332,363 |
| Accumulated other comprehensive loss | (10,684) | (8,139) |
| Accumulated deficit | (105,489) | (89,913) |

| | | | | |
|---|---|---|---|---|
| **Total equity** | | 218,946 | | 234,993 |
| **Total liabilities and stockholders equity** | $ | 261,560 | $ | 285,821 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

**ADAPTIMMUNE THERAPEUTICS PLC**

**(UNAUDITED) CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**(in thousands, except share and per share data)**

| | for the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Revenue** | **$ 2,918** | **$ 2,728** |
| **Operating expenses** | | |
| Research and development | (13,888) | (5,976) |
| General and administrative | (5,855) | (2,359) |
| **Total operating expenses** (including $780,000 (2015: $1,147,000) in relation to related parties, net of reimbursements) | **(19,743)** | **(8,335)** |
| **Operating loss** | **(16,825)** | **(5,607)** |
| Interest income | 259 | 110 |
| Other income, net | 1,049 | 3,603 |
| **Total other income, net** | **1,308** | **3,713** |
| **Loss before income taxes** | **(15,517)** | **(1,894)** |
| Income taxes | (59) | (51) |
| **Net loss** | **(15,576)** | **(1,945)** |
| | | |
| Deemed dividend on convertible preferred shares | | (6,434) |
| **Net loss available to ordinary shareholders** | **$ (15,576)** | **$ (8,379)** |
| | | |
| **Net loss per ordinary share basic and diluted (Note 2)** | **$ (0.04)** | **$ (0.05)** |

| | for the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Weighted average shares outstanding, basic and diluted | 424,711,900 | 181,370,100 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

**ADAPTIMMUNE THERAPEUTICS PLC**

**(UNAUDITED) CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

**(in thousands)**

| | for the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Net loss** | $ (15,576) | $ (1,945) |
| **Other comprehensive loss, net of tax** | | |
| Foreign currency translation adjustments, net of tax of $- (2015: $-) | (2,545) | (4,897) |
| **Total comprehensive loss for the period** | **$ (18,121)** | **$ (6,842)** |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

**ADAPTIMMUNE THERAPEUTICS PLC**

**(UNAUDITED) CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

**(in thousands, except share data)**

| | Common stock | Common stock | Additional paid in capital | Accumulated other comprehensive loss | Accumulated deficit | Total Stockholders equity |
|---|---|---|---|---|---|---|
| Balance at January 1, 2016 | 424,711,900 | $ 682 | $ 332,363 | $ (8,139) | $ (89,913) | $ 234,993 |
| Net loss | | | | | (15,576) | (15,576) |
| Other comprehensive loss, net of tax | | | | (2,545) | | (2,545) |
| Share-based compensation expense | | | 2,074 | | | 2,074 |
| **Balance at March 31, 2016** | **424,711,900** | **$ 682** | **$ 334,437** | **$ (10,684)** | **$ (105,489)** | **$ 218,946** |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

**ADAPTIMMUNE THERAPEUTICS PLC**

**(UNAUDITED) CONDENSED CONSOLIDATED CASH FLOW STATEMENTS**

**(in thousands)**

| | for the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Cash flows from operating activities** | | |
| Net loss | $ (15,576) | $ (1,945) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 707 | 68 |
| Amortization | 38 | |
| Share-based compensation expense | 2,074 | 1,482 |
| Unrealized foreign exchange gains | (1,608) | (3,604) |
| *Changes in operating assets and liabilities:* | | |
| (Increase)/decrease in receivables and other operating assets | (489) | 573 |
| Decrease in non-current operating assets | 1,835 | |
| Decrease in payables and deferred revenue | (5,660) | (2,217) |
| **Net cash used in operating activities** | **(18,679)** | **(5,643)** |
| | | |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | (1,708) | (672) |
| Acquisition of intangibles | (861) | |
| Maturity of short-term deposits | 7,993 | |
| Investment in short-term deposits | (15,988) | |
| **Net cash used in investing activities** | **(10,564)** | **(672)** |
| | | |
| **Cash flows from financing activities** | | |
| **Net cash used in financing activities** | | |
| | | |
| Effect of currency exchange rate changes on cash and cash equivalents | (1,254) | (2,750) |
| Net decrease in cash and cash equivalents | (30,497) | (9,065) |
| Cash and cash equivalents at start of period | 194,263 | 101,664 |
| **Cash and cash equivalents at end of period** | $ 163,766 | $ 92,599 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

**ADAPTIMMUNE THERAPEUTICS PLC**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

## Note 1 - General

Adaptimmune Therapeutics plc is registered in England and Wales. Its registered office is 101 Park Drive, Milton Park, Abingdon, Oxfordshire OX14 4RY UK. Adaptimmune Therapeutics Plc and its subsidiaries (collectively Adaptimmune or the Company ) is a clinical-stage biopharmaceutical company focused on novel cancer immunotherapy products based on its proprietary SPEAR (Specific Peptide Enhanced Affinity Receptor) T-cell platform. It has developed a comprehensive proprietary platform that enables it to identify cancer targets, find and genetically engineer T-cell receptors ( TCRs ), and produce TCR therapeutic candidates for administration to patients. The Company engineers TCRs to increase their affinity to cancer specific peptides in order to destroy cancer cells in patients.

The Company is subject to a number of risks similar to other biopharmaceutical companies in the early stage including, but not limited to, the need to obtain adequate additional funding, possible failure of preclinical programs or clinical trials, the need to obtain marketing approval for its SPEAR T-cells, competitors developing new technological innovations, the need to successfully commercialize and gain market acceptance of the Company s SPEAR T-cells, and protection of proprietary technology. If the Company does not successfully commercialize any of its SPEAR T-cells, it will be unable to generate product revenue or achieve profitability. The Company had an accumulated deficit of $105.5 million as of March 31, 2016.

## Note 2 - Summary of Significant Accounting Policies

### (a) Basis of presentation

The condensed consolidated interim financial statements of Adaptimmune Therapeutics plc and its subsidiaries and other financial information included in this Quarterly Report are unaudited and have been prepared in accordance with generally accepted accounting principles in the United States of America ( U.S. GAAP ) and are presented in U.S. dollars. All significant intercompany accounts and transactions between the Company and its subsidiaries have been eliminated on consolidation. The Company has previously prepared its financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board.

The unaudited condensed interim financial statements presented in this Quarterly Report should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Transition Report on Form 20-F for the six months ended December 31, 2015 and the Company s Annual Report on Form 20-F for the year ended June 30, 2015, each prepared under IFRS and presented in pounds

sterling. In order to provide consistent comparability across periods, the Company has prepared an unaudited statement of operations and statement of cash flows for the six months ended December 31, 2015 and balance sheets as of December 31 and June 30, 2015 in accordance with U.S. GAAP and presented in U.S. dollars in Note 10 below.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted from these interim financial statements. However, these interim financial statements include all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary to fairly state the results of the interim period. The interim results are not necessarily indicative of results to be expected for the full year.

**(b) Use of estimates in interim financial statements**

The preparation of interim financial statements, in conformity with U.S. GAAP and SEC regulations, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are primarily made in relation to the valuation of share options, revenue recognition and estimating clinical trial expenses. If actual results differ from the Company s estimates, or to the extent these estimates are adjusted in future periods, the Company s results of operations could either benefit from, or be adversely affected by, any such change in estimate.

**(c) Going concern**

Management considers that there are no conditions or events, in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern for a period of at least one year from the date the financial statements are issued. This evaluation is based on relevant conditions and events that are known and reasonably knowable at the date that the financial statements are issued, including:

a. The Company s current financial condition, including its liquidity sources

b. The Company s conditional and unconditional obligations due or anticipated within one year

c. The funds necessary to maintain the Company s operations considering its current financial condition, obligations, and

Table of Contents

other expected cash flows, and

d. Other conditions and events, when considered in conjunction with the above that may adversely affect the Company s ability to meet its obligations.

**(d) Foreign currency**

The reporting currency of the Company is the U.S. dollar. The Company has previously presented its IFRS consolidated financial statements in pounds sterling but has changed to reporting in U.S. dollars because the Company is now filing financial statements in accordance with the SECs requirements for domestic registrants. Comparative periods have been recast as if the U.S. dollar had been used since at least the earliest period presented in these financial statements.

The Company has determined the functional currency of the ultimate parent company, Adaptimmune Therapeutics Plc is U.S. dollars because it predominately raises finance and expends cash in U.S. dollars. The functional currency of subsidiary operations is the applicable local currency. Transactions in foreign currencies are translated into the functional currency of the subsidiary in which they occur at the foreign exchange rate in effect on at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into the functional currency of the relevant subsidiary at the foreign exchange rate in effect on the balance sheet date. Foreign exchange differences arising on translation are recognized with Other income/(expense) in the Consolidated statement of operations.

The results of operations for subsidiaries, whose functional currency is not the U.S. dollar, are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions and the balance sheet are translated at foreign exchange rates ruling at the balance sheet date. Exchange differences arising from this translation of foreign operations are reported as an item of Other comprehensive income/loss.

**(e) Fair Value Measurements**

The Company is required to disclose information on all assets and liabilities reported at fair value that enables an assessment of the inputs used in determining the reported fair values. The fair value hierarchy prioritizes valuation inputs based on the observable nature of those inputs. The fair value hierarchy applies only to the valuation inputs used in determining the reported fair value of the investments and is not a measure of the investment credit quality. The hierarchy defines three levels of valuation inputs:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3 Unobservable inputs that reflect the Company s own assumptions about the assumptions market participants would use in pricing the asset or liability

The Company s financial instruments consist primarily of cash and cash equivalents, short-term deposits, restricted cash, accounts receivable, accounts payable and accrued expenses. The carrying amounts of the Company s financial instruments approximate fair value because of the short-term nature of these instruments.

**(f) Comprehensive Loss**

Comprehensive loss is comprised of Net loss and Other comprehensive income or loss. Other comprehensive income or loss consists of foreign currency translation adjustments.

**(g) Cash and cash equivalents**

The Company considers all highly-liquid investments with a maturity at acquisition date of three months or less to be cash equivalents. Cash and cash equivalents comprise cash balances and deposits with maturities of three months or less.

**(h) Restricted cash**

The Company s restricted cash consists of cash providing security for letters of credit in respect of lease agreements.

Table of Contents

### (i) Short-term deposits

Short-term deposits consists of bank deposits with a maturity at acquisition date of between three and twelve months.

### (j) Clinical materials

Clinical materials for use in research and development with alternative future use are capitalized as either Other current assets or Other non-current assets, depending on the timing of their expected consumption.

### (k) Property, plant and equipment

Property, plant and equipment is stated at cost, less any impairment losses, less accumulated depreciation.

Depreciation is computed using the straight-line method over the estimated useful lives of the related assets. The following table provides the range of estimated useful lives used for each asset type:

| | |
|---|---|
| Computer equipment | 3 years |
| Laboratory equipment | 5 years |
| Office equipment | 5 years |
| Leasehold improvements | the expected duration of the lease |

Assets under construction are not depreciated until the asset is available and ready for its intended use.

The Company assesses property, plant and equipment for impairment whenever events or changes in circumstances indicate that an asset s carrying amount may not be recoverable.

### (l) Intangibles

Intangibles includes intellectual property ( IP ) rights for licensed technology used in research and development with an alternative future use,

which are recorded at cost and amortized over the estimated useful life of the related product. The weighted-average amortization period for IP rights for licensed technology at March 31, 2016 is 7 years.

Intangibles also include acquired computer software licenses, which are recorded at cost and amortized over the estimated useful lives of the software.

Intangibles are assessed for impairment whenever events or changes in circumstances indicate that an asset s carrying amount may not be recoverable.

**(m) Segmental reporting**

After considering its business activities, the Company has concluded that it operates in just one operating segment being the research and development of therapeutic products.

**(n) Revenue**

Revenue is recognized when earned and realized or realizable, which is generally when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the seller s price to the buyer is fixed or determinable, and collectability is reasonably assured. Where applicable, all revenues are stated net of value added and similar taxes.

The Company s revenue currently arises from a Collaboration and License Agreement with GSK entered into in June 2014 and amended in February 2016 (the GSK Collaboration and License Agreement ), which requires the Company to provide multiple deliverables to the customer. The Company recognizes revenue for arrangements with multiple deliverables by identifying the separable deliverables within the arrangement, whereby a deliverable is considered separable if it has value to the customer on a standalone basis. The noncontingent arrangement consideration is allocated between the separate deliverables using the relative selling price. The relative selling price is determined using vendor-specific objective evidence (VSOE), if available, third party evidence if VSOE is not available, or a best estimate of the standalone selling price if neither VSOE nor third party evidence is available. Revenue allocated to each deliverable is recognized as that deliverable is delivered.

Amounts received prior to satisfying the revenue recognition criteria are recorded as deferred revenue in the Company s consolidated balance sheet. Amounts expected to be recognized as revenue within the 12 months following the balance sheet date are classified as deferred revenue in current liabilities. Amounts not expected to be recognized as revenue within the 12 months following

Table of Contents

the balance sheet date are classified as deferred revenue, less current portion.

Milestone payments which are non-refundable, non-creditable and contingent on achieving clinical milestones are recognized as revenues either on achievement of such milestones if the milestones are considered substantive or over the period the Company has continuing performance obligations, if the milestones are not considered substantive. When determining if a milestone is substantive, the Company considers the following factors:

- The degree of certainty in achieving the milestone.
- The frequency of milestone payments
- The Company s efforts, which result in achievement of the milestone
- The amount of the milestone payment relative to the other deliverables and payment terms, and
- Whether the milestone payment is related to future performance or deliverables.

**(o) Research and development expenditure**

Research and development expenditure is expensed as incurred.

Expenses related to clinical trials are recognized as services are received. Nonrefundable advance payments for services are deferred and recognized in the Statement of operations as the services are rendered. This determination is based on an estimate of the services received and there may be instances when the payments to vendors exceed the level of services provided resulting in a prepayment of the clinical expense. If the actual timing of the performance of services varies from our estimate, the accrual or prepaid expense is adjusted accordingly.

Upfront and milestone payments to third parties for in-licensed products or technology which has not yet received regulatory approval and which does not have alternative future use in R&D projects or otherwise are expensed as incurred.

Milestone payments made to third parties either on or subsequent to regulatory approval are capitalized as an intangible asset and amortized over the remaining useful life of the product.

Research and development expenditure is presented net of reimbursements from grants and R&D expenditure credits and reimbursable tax credits from the U.K. government, which are recognized over the period necessary to match the reimbursement with the related costs when it is probable that the Company has complied with any conditions attached and will receive the reimbursement.

**(p) Operating leases**

Costs in respect of operating leases are charged to the Consolidated statement of operations on a straight line basis over the lease term.

**(q) Share-based compensation**

The Company awards certain employees and nonemployees options over the ordinary shares of the parent company. The cost of share-based awards issued to employees are measured at the grant-date fair value of the award and recognized as an expense over the requisite service period, for those awards that are ultimately expected to vest. The fair value of the options is determined using the Black-Scholes option-pricing model. Share options with graded-vesting schedules are recognized on a straight-line basis over the requisite service period for each separately vesting portion of the award.

The Company has awarded share options to nonemployees for consultancy services. These share options are measured at the fair value of the goods/services received or the fair value of the equity instrument issued, whichever is more reliably measured, at the then-current fair values at each reporting date until the share options have vested and recognized as an expense over the requisite service period.

**(r) Retirement benefits**

The Company operates a defined contribution pension scheme for its directors and employees. The contributions to this scheme are expensed to the Consolidated statement of operations as they fall due.

**(s) Income taxes**

Income taxes for the period comprise current and deferred tax. Income tax is recognized in the Consolidated statement of operations except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Table of Contents

Current tax is the expected tax payable or receivable on the taxable income or loss for the period using tax rates enacted at the balance sheet date.

Deferred tax is accounted for using the asset and liability method that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement and tax bases of assets and liabilities at the applicable tax rates. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluates the realizability of its deferred tax assets by assessing its valuation allowance and by adjusting the amount of such allowance, if necessary. The factors used to assess the likelihood of realization include the Company s forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

Income tax positions must meet a more-likely-than-not recognition threshold to be recognized. Income tax positions that previously failed to meet the more-likely-than-not threshold are recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold are derecognized in the first subsequent financial reporting period in which that threshold is no longer met. We recognize potential accrued interest and penalties related to unrecognized tax benefits within the Consolidated statement of operations as income tax expense.

In interim periods, the tax or benefit related to ordinary income (or loss) is computed at an estimated annual effective tax rate and the tax (or benefit) related to all other items is individually computed and recognized when the items occur.

**(t) Preferred shares**

In September 2014, the Company issued 1,758,418 Series A Preferred Shares for net consideration of $98,872,000 after the deduction of fees of $4,949,000. The Preferred Shares were convertible into ordinary shares at the option of the holder at an initial rate of 1:1 reducing to 2:1 on the third anniversary of the issuance, or on the occurrence of an initial public offering at a rate of 1:1 reducing from 1:1 on the first anniversary of the issuance to 2:1 on the third anniversary of the issuance.

The Preferred Shares contained a beneficial conversion feature, which is recognized within Additional paid in capital and accreted over the minimum period in which the investor can recognize that return. The beneficial conversion feature was accreted through a deemed dividend of $6,073,000, $6,434,000 and $2,229,000 in the three months to December 31, 2014, March 31, 2015 and June 30, 2015 respectively. The Preferred Shares were converted into ordinary shares at a rate of 1:1 immediately prior to the Company s initial public offering on NASDAQ in May 2015. Upon conversion the Company reclassified the carrying amount of the Preferred Shares to Common stock and Additional paid-in capital.

**(u) Earnings/loss per share**

Basic earnings/loss per share is determined by dividing net income or loss available to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. Diluted earnings/loss per share is determined by dividing net income or loss applicable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period, adjusted for the dilutive effect of all potential ordinary shares that were outstanding during the period. Potentially dilutive shares are excluded when the effect would be to increase diluted earnings per share or reduce diluted loss per share.

The following table reconciles the numerator and denominator in the basic and diluted earnings/loss per share computation (in thousands):

| | for the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| **Numerator for basic and diluted EPS** | | |
| Net loss | $ (15,576) | $ (1,945) |
| Deemed dividend on convertible preferred shares | | (6,434) |
| **Net loss available to ordinary shareholders** | **$ (15,576)** | **$ (8,379)** |
| | | |
| **Denominator for basic and diluted EPS** | | |
| Weighted average number of shares used to calculate basic and diluted loss per share | 424,711,900 | 181,370,100 |

Table of Contents

The effects of the following potentially dilutive equity instruments have been excluded from the diluted loss per share calculation because they would have an antidilutive effect on the loss per share for the period:

| | for the three months ended March 31, | |
|---|---|---|
| | 2016 Number | 2015 Number |
| Share options | 44,159,031 | 29,951,662 |
| Preferred shares | | 175,841,800 |

## (v) New accounting pronouncements

*Adopted with effect from January 1, 2016*

*Accounting for measurement period adjustments*

The Company has adopted guidance issued by the Financial Accounting Standards Board (FASB) in September 2015 which simplified the accounting for adjustments to provisional measurement in a business combination occurring in the measurement period. The guidance has been adopted prospectively to provisional measurements occurring after the January 1, 2016. The adoption of this guidance did not have any impact on the consolidated financial position, results of operations or cash flows.

*Customer s accounting for fees paid in a cloud computing arrangement*

The Company has adopted guidance issued by the FASB in April 2015 which clarifies a customer s accounting for fees paid in a cloud computing arrangement. The guidance provides a customer with guidance on whether a cloud computing arrangement includes a software license and clarifies that the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The guidance has been adopted prospectively to all arrangements entered into or materially modified after January 1, 2016. The adoption of this guidance did not have any impact on the financial position, results of operations or cash flows.

*Disclosure of uncertainties about an entity s ability to continue as a going concern*

The Company has adopted guidance issued by the FASB in August 2014 which defines management s responsibility to evaluate whether there is substantial doubt about an organization s ability to continue as a going concern and to provide related footnote disclosures. The adoption of this guidance did not have any impact on the consolidated financial position, results of operations or cash flows.

*To be adopted in future periods*

*Improvements employee share-based payment accounting*

In April 2016, the FASB issued guidance which provided improvements to several aspects of employee share-based payment accounting including simplifications impacting the income tax consequences of share-based payments, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The guidance is effective for the fiscal year beginning January 1, 2017, including interim periods within that fiscal year. Early application is permitted. The guidance provides different adoption methods for specific amendments within the guidance and in some cases a choice of adoption method. The Company is currently evaluating the impact of the guidance on the consolidated financial statements.

*Accounting for leases*

In February 2016, the FASB issued guidance on the accounting for leases. The guidance requires that lessees recognize a lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and a right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term at the commencement date. The guidance also makes targeted improvements to align lessor accounting with the lessee accounting model and guidance on revenue from contracts with customers. The guidance is effective for the fiscal year beginning January 1, 2019, including interim periods within that fiscal year. Early application is permitted. The guidance must be adopted on a modified retrospective transition approach for leases existing, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of the guidance on the consolidated financial statements.

Table of Contents

*Recognition and measurement of financial assets and financial liabilities*

In January 2016, the FASB amended the guidance on the recognition and measurement of financial assets and financial liabilities. The new guidance requires that equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) are measured at fair value with changes in fair value recognized in net income. The guidance also requires the use of an exit price when measuring the fair value of financial instruments for disclosure purposes, eliminates the requirement to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost and requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset. The guidance is effective for the fiscal year beginning January 1, 2018, including interim periods within that fiscal year. The Company does not believe the adoption of the guidance will have a material impact on the consolidated financial statements.

*Classification of deferred taxes*

In November 2015, the FASB amended the guidance on the classification of deferred taxes. The amendments eliminate the requirement to present deferred tax liabilities and assets as current and non-current in a classified balance sheet. Instead, all deferred tax assets and liabilities will be classified as non-current. The amendments are effective for the fiscal year beginning January 1, 2017, and interim periods within that fiscal year. The amendments may be applied prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company does not believe the adoption of the guidance will have a material impact on the consolidated financial statements.

*Revenue from contracts with customers*

In May 2014, the FASB issued guidance requiring a new approach to revenue recognition. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

Step 1: Identify the contract(s) with a customer.
Step 2: Identify the performance obligations in the contract.
Step 3: Determine the transaction price.
Step 4: Allocate the transaction price to the performance obligations in the contract.
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

In August 2015, the FASB deferred the effective date of the guidance by one year resulting in the guidance being effective for the fiscal year beginning January 1, 2018, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The guidance can be adopted retrospectively to each prior reporting period presented, subject to certain practical expedients, or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application. The Company is currently assessing the impact of adopting the guidance.

In March 2016, the FASB issued further clarification on the principal versus agent considerations (reporting revenue gross versus net) included within the new revenue recognition guidance. This guidance will be effective upon the adoption of the new revenue recognition guidance. The Company is currently assessing the impact of adopting the guidance.

In April 2016, the FASB issued further clarification on identifying performance obligations in a contract with a customer and provided implementation guidance on whether licenses are satisfied at a point in time or over time. This guidance will be effective upon the adoption of the new revenue recognition guidance. The Company is currently assessing the impact of adopting the guidance.

**Note 3 Revenue**

*GSK Collaboration and Licensing Agreement*

Revenue represents recognized income from the GSK Collaboration and License agreement, whereby GSK funds the development of, and has an option to obtain an exclusive license to, our NY-ESO SPEAR T-cells. In addition, GSK has the right to nominate four additional target peptides, excluding those where the Company has already initiated development of a SPEAR T-cell candidate. The Company received an upfront payment of $42 million (£25 million) in June 2014 and has achieved various development milestones totaling $22 million (£14 million). No milestones were achieved during the three months ended March 31, 2016. The Company is entitled to further milestone payments based on the achievement of specified development and commercialization milestones by either the Company or GSK.

Table of Contents

In addition to the development milestones, the Company is entitled to royalties from GSK on all GSK sales of TCR therapeutic products licensed under the agreement, varying between a mid-single-digit percentage and a low-double-digit percentage of net sales. No royalties have been received as at March 31, 2016. Sales milestones also apply once any TCR therapeutic covered by the GSK Collaboration and License Agreement is on the market.

The GSK Collaboration and License Agreement is effective until all payment obligations expire. The agreement can also be terminated on a collaboration program-by-collaboration program basis by GSK for lack of feasibility or inability to meet certain agreed requirements. Both parties have rights to terminate the agreement for material breach upon 60 days written notice or immediately upon insolvency of the other party. GSK has additional rights to terminate either the agreement or any specific license or collaboration program on provision of 60 days notice to us. The Company also has rights to terminate any license where GSK ceases development or withdraws any licensed TCR therapeutic in specified circumstances.

In February 2016, the terms of the GSK Collaboration and License Agreement were expanded to accelerate the development of our NY-ESO SPEAR T-cells towards pivotal trials in synovial sarcoma, as well as the exploration of development of NY-ESO SPEAR T-cells in myxoid round-cell liposarcoma. The amendment also provides the opportunity for up to eight combination studies using our NY-ESO SPEAR T-cells and increases the potential development milestones that the Company is eligible to receive. These development milestones will be allocated to the separate standalone deliverables within the arrangement once the milestone is achieved.

The revenue recognized to date relates to the upfront fee and development milestones payments received, which are being recognized in revenue over the period in which the Company is delivering services under the GSK Collaboration and License Agreement. The Company has recognized $2,918,000 of revenue during the three months ending March 31, 2016 (2015: $2,728,000).

**Note 4 Property, plant and equipment, net**

Property and equipment, net consisted of the following (in thousands):

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Computer equipment | $ 1,301 | $ 1,182 |
| Laboratory equipment | 11,290 | 11,016 |
| Office equipment | 252 | 258 |
| Leasehold improvements | 1,615 | 1,631 |
| Assets under construction | 2,056 | 1,147 |
| | 16,514 | 15,234 |
| Less accumulated depreciation | (2,669) | (2,009) |
| | $ 13,845 | $ 13,225 |

Depreciation expense for the three months ended March 31, 2016 and March 31, 2015 was $707,000 and $68,000, respectively.

**Note 5 Intangible assets, net**

Intangible assets, net consisted of the following (in thousands):

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Acquired software licenses | $ 1,171 | $ 399 |
| IP rights for licensed technology | 99 | |
| | 1,270 | 399 |
| Less accumulated amortization | (130) | (94) |
| | **$ 1,140** | **$ 305** |

Amortization expense for the three months ended March 31, 2016 and March 31, 2015 was $38,000 and $- respectively.

Table of Contents

**Note 6 Accrued expenses and other current liabilities**

Accrued expenses and other current liabilities consisted of the following (in thousands):

| | March 31, 2016 | December 31, 2015 |
|---|---|---|
| Accrued purchases | $ 4,734 | $ 6,406 |
| Accrued employee compensation and benefits payable | 536 | 368 |
| Other current liabilities | 51 | 744 |
| | **$ 5,321** | **$ 7,518** |

**Note 7 Contingencies and commitments**

*Leases*

Future minimum lease payments under operating leases at March 31, 2016 are presented below (in thousands):

| | March 31, 2016 |
|---|---|
| 2016 | $ 1,146 |
| 2017 | 2,624 |
| 2018 | 3,167 |
| 2019 | 4,128 |
| 2020 | 3,865 |
| 2021 | 3,358 |
| Thereafter | 19,231 |
| | **$ 37,519** |

The Company leases property under operating leases expiring through 2027. Lease expenses amounted to $425,000 and $168,000 for the three months ended March 31, 2016 and March 31, 2015, respectively, which is included within Research and development and General and administrative expenses in the Company s Consolidated statement of operations.

*Capital commitments*

At March 31, 2016 and December 31, 2015 the Company had commitments for capital expenditure totaling $19,579,000 and $20,651,000 respectively.

*Clinical trials and contract manufacturing commitments*

At March 31, 2016 and December 31, 2015 the Company had commitments to pay vendors for executing and administering clinical trials of $24,942,000 and $23,509,000, respectively, and for contract manufacturing of $19,472,000 and $16,612,000, respectively.

*Universal Cells Research, Collaboration and License Agreement*

On November 25, 2015, the Company entered into a Research, Collaboration and License Agreement relating to gene editing and HLA-engineering technology with Universal Cells, Inc. ( Universal Cells ). The Company paid an upfront license and start-up fee of $2.5 million to Universal Cells in November 2015 and a milestone payment of $3.0 million in February 2016. Further milestone payments of up to $44 million are payable if certain development and product milestones are achieved. Universal Cells would also receive a profit-share payment for the first product, and royalties on sales of other products utilizing its technology. The upfront and start-up fee has been expensed to research and development when incurred.

*ThermoFisher License Agreement*

In 2012, we entered into a series of license and sub-license agreements with Life Technologies Corporation, part of ThermoFisher Scientific, Inc. that provide the Company with a field-based exclusive license under certain intellectual property rights owned or controlled by ThermoFisher Scientific. The Company paid upfront license fees of $1.0 million relating to the license and

Table of Contents

sublicense agreements and has an obligation to pay minimum annual royalties (in the tens of thousands of U.S. dollars prior to licensed product approval and thereafter at a level of 50% of running royalties in the previous year), milestone payments and a low single-digit running royalty payable on the net selling price of each licensed product. The upfront payment made in 2012 was expensed to research and development when incurred. Subsequent milestone payments have been recognized as an intangible asset due to the technology having alternative future use in research and development projects at the time of the payment. The minimum annual royalties have been expensed as incurred. We are in the process of negotiating a new supply agreement with ThermoFisher Scientific which is anticipated to be executed during 2016.

**Note 8 Share based compensation**

The following table shows the total share-based compensation expense (see below for types of share-based awards) included in the consolidated statements of operations (thousands):

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Research and development | $ 893 | $ 964 |
| General and administrative | 1,181 | 518 |
| | $ 2,074 | $ 1,482 |

There were 13,575,554 and 9,183,962 options granted in the three months ended March 31, 2016 and 2015, respectively. The weighted average fair value of stock options granted in the three months ended March 31, 2016 and March 31, 2015 was $0.89 and $0.83, respectively.

The total charge for the three months ended March 31, 2016 and 2015 relating to share based payment plans was $2,074,000 and $1,482,000, respectively, all of which related to equity-settled share based payment transactions and was recognized in the Statement of operations.

The fair value of the stock options granted during the period was calculated using the Black-Scholes option-pricing model using the following assumptions:

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Expected term (years) | 5 years | 5 years |
| Expected volatility | 68% | 60% |
| Risk free rate | 1.07% | 1.09% |
| Expected dividend yield | 0% | 0% |

The expected term of the option is based on management judgment.

Estimates of pre-vesting option forfeitures are based on the Company s experience. The Company adjusts its estimate of forfeitures over the requisite service period based on the extent to which actual forfeitures differ, or are expected to differ, from such estimates. Changes in estimated forfeitures are recognized through a cumulative adjustment in the period of change and may impact the amount of compensation expense to be recognized in future periods. To date, our forfeitures have been minimal.

Due to the Company s lack of sufficient history as a publicly traded company, management s estimate of expected volatility is based on the average volatilities of seven public companies with similar attributes to the Company.

The risk free rate is based on the Bank of England s estimates of gilt yield curve as of the respective grant dates.

At March 31, 2016, there were 3,074,600 share options granted to nonemployees outstanding. These share options are measured at the current fair values at each reporting date until the share options have vested and recognized in the consolidated statement of operation over the requisite service period. The total share based payment charge relating to these options was a credit of $108,000 in the three months ended March 31, 2016 and a debit of $528,000 in the three months ended March 31, 2015.

Table of Contents

**Note 9 Related party disclosures**

Adaptimmune and Immunocore Limited ( Immunocore ) have a shared history, some overlap in our board membership and substantial overlap in our shareholder base. The Company has entered into several agreements regarding the shared use of certain services including licensing and research collaboration. Since inception, we have maintained separate financial statements and we believe our agreements are on an arm s length basis. Accordingly, we do not believe our relationship with Immunocore has had or will have a significant impact on our financial statements.

During the period, Immunocore has invoiced the Company in respect of the transitional services agreement, property rent and joint patent costs. The Company has invoiced Immunocore in respect of the transitional services agreement.

Transactions entered into in the three months to March 31, 2016 and 2015 are as follows (in thousands):

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Invoiced to Immunocore for reimbursements | $ 7 | $ 2 |
| Purchases from Immunocore | 787 | 1,149 |

Trading balances outstanding as of March 31, 2016 and December 31, 2015 are as follows (in thousands):

| | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Amounts owed from Immunocore | $ 1 | $ 2 |
| Amounts owed to Immunocore | 229 | 288 |

Table of Contents

**Note 10 Selected historical financial information**

The Company is reporting under U.S. GAAP in U.S. dollars for the first time with effect from January 1, 2016. The Company has previously prepared consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the International Accounting Standards Board in pounds sterling.

For the purpose of comparability when reading these condensed interim financial statements in conjunction with those consolidated financial statements, the Company has provided below a statement of operations (unaudited) and statement of cash flows (unaudited) for the six months ended December 31, 2015 and balance sheets (unaudited) as of December 31 and June 30, 2015 under U.S. GAAP:

***Consolidated Statement of Operations (in thousands, except share data)***

| | | **for the six months to December 31, 2015** |
|---|---|---|
| **Revenue** | **$** | **8,979** |
| **Operating expenses** | | |
| Research and development | | (24,244) |
| General and administrative | | (11,145) |
| **Total operating expenses** | | **(35,389)** |
| **Operating loss** | | **(26,410)** |
| Interest income | | 489 |
| Other income, net | | 2,866 |
| **Total other income, net** | | **3,355** |
| **Loss before income taxes** | | **(23,055)** |
| Income taxes | | 55 |
| **Net loss** | | **(23,000)** |
| | | |
| **Net loss per ordinary share basic and diluted** | **$** | **(0.05)** |

Table of Contents

***Consolidated Balance Sheet (in thousands)***

| | December 31, 2015 | June 30, 2015 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 194,263 | $ 229,046 |
| Short-term deposits | 54,620 | 55,292 |
| Accounts receivable, net of allowance for doubtful accounts of $- and $- | 744 | 4 |
| Other current assets and prepaid expenses | 13,420 | 10,740 |
| **Total current assets** | 263,047 | 295,082 |
| | | |
| Restricted cash | 4,508 | |
| Clinical materials | 4,736 | |
| Property, plant and equipment, net | 13,225 | 5,571 |
| Intangibles, net | 305 | |
| | | |
| **Total assets** | $ 285,821 | $ 300,653 |
| | | |
| **Liabilities and Stockholders equity** | | |
| **Current liabilities** | | |
| Accounts payable | $ 7,884 | $ 1,982 |
| Accrued expenses and other accrued liabilities | 7,518 | 3,877 |
| Deferred revenue | 12,487 | 20,906 |
| | 27,889 | 26,765 |
| | | |
| Deferred revenue, less current portion | 22,939 | 14,885 |
| | | |
| **Total liabilities** | 50,828 | 41,650 |
| | | |
| **Equity** | | |
| Common stock - Ordinary shares par value £0.001 | 682 | 682 |
| Additional paid in capital | 332,363 | 328,795 |
| Accumulated other comprehensive loss | (8,139) | (3,561) |
| Accumulated deficit | (89,913) | (66,913) |
| **Total equity** | 234,993 | 259,003 |
| | | |
| **Total liabilities and stockholders equity** | $ 285,821 | $ 300,653 |

Table of Contents

***Consolidated Statement of Cash flows (in thousands)***

| | | for the six months to December 31, 2015 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Net loss | $ | (23,000) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | | 1,176 |
| Amortization | | 69 |
| Share-based compensation expense | | 3,566 |
| Unrealized foreign exchange gains | | (2,866) |
| *Changes in operating assets and liabilities:* | | |
| Increase in receivables and operating assets | | (4,242) |
| Increase in non-current operating assets | | (4,736) |
| Increase in payables and deferred revenue | | 11,971 |
| **Net cash used in operating activities** | | **(18,062)** |
| | | |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | | (9,628) |
| Acquisition of intangibles | | (210) |
| Movements in restricted cash | | (4,666) |
| Maturity of short-term deposits | | 16,645 |
| Investment in short-term deposits | | (16,645) |
| **Net cash used in investing activities** | | **(14,504)** |
| | | |
| **Cash flows from financing activities** | | |
| **Net cash used in financing activities** | | |
| | | |
| Effect of currency exchange rate changes on cash and cash equivalents | | (2,217) |
| Net decrease in cash and cash equivalents | | (34,783) |
| Cash and cash equivalents at start of period | | 229,046 |
| **Cash and cash equivalents at end of period** | $ | 194,263 |

Table of Contents

**Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations**

The statements in this discussion regarding industry outlook, our expectations regarding our future performance, liquidity and capital resources and other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in Risk Factors and Forward-Looking Statements in this Quarterly Report on Form 10-Q. Our actual results may differ materially from those contained in or implied by any forward-looking statements.

The following discussion should be read in conjunction with the unaudited consolidated financial statements and accompanying notes included elsewhere in this report and the Company s Transition Report on Form 20-F for the six months ended December 31, 2015 and the Company s Annual Report on Form 20-F for the year ended June 30, 2015, each prepared under IFRS and presented in pounds sterling.

**Significant events in the three months ended March 31, 2016**

*GSK Collaboration and License Agreement*

In February 2016, the Company announced that the terms of the GSK Collaboration and License Agreement had been expanded to accelerate the development of our NY-ESO SPEAR T-cells towards pivotal trials in synovial sarcoma, as well as the exploration of development of our NY-ESO SPEAR T-cells in myxoid round-cell liposarcoma. The amendment also provides the opportunity for up to eight combination studies using our NY-ESO SPEAR T-cells and increases the potential development milestones that the Company is eligible to receive.

*Clinical developments NY-ESO in synovial sarcoma*

In February 2016, the U.S. Food and Drug Administration ( FDA ) granted breakthrough therapy designation for affinity enhanced T-cell therapy targeting NY-ESO in synovial sarcoma.

*Orphan drug designation for NY-ESO in soft tissue sarcoma*

In March 2016, the FDA s Office of Orphan Products Development granted orphan drug designation for the Company s affinity enhanced T-cell therapy targeting NY-ESO for the treatment of soft tissue sarcoma, a solid tumor cancer. Adaptimmune is developing its NY-ESO therapy in certain soft tissue sarcomas and expects to initiate pivotal studies in synovial sarcoma around year end 2016, and will explore development in myxoid round cell liposarcoma.

**Recent events**

*SPEARTM T-cells brand for proprietary technology*

On April 22, 2016 the Company announced it has adopted the name SPEAR T-cells (Specific Peptide Enhanced Affinity Receptor T-cells) to describe its proprietary technology. A trademark application has been filed for SPEAR.

*MAGE-A4 development target*

On April 22, 2016 the Company announced that its next target for development of a SPEAR T-cell is MAGE-A4, with the objective of achieving IND acceptance in 2017.

*Inaugural Scientific Advisory Board appointments*

On April 22, 2016 the Company announced the appointment of leading immunology, immunotherapy and oncology experts from across the United States and Europe to its newly formed scientific advisory board ( SAB ). Crystal Mackall, M.D., Professor of Pediatrics and Medicine and Associate Director of the Stanford Cancer Institute, will serve as Chair of the SAB. The SAB will serve as a strategic resource for Adaptimmune and help to steer the Company s development efforts in the field of immuno-oncology.

*Clinical developments IND for alpha fetoprotein ( AFP ) in locally advanced or metastatic hepatocellular carcinoma*

On April 7, 2016 the Company announced that the FDA had accepted the Company s investigational new drug ( IND ) application for its AFP SPEAR T-cells in patients with locally advanced or metastatic hepatocellular carcinoma. This is the Company s second unpartnered therapeutic candidate to enter clinical trials.

Table of Contents

*United Kingdom Technology Strategy Board ( TSB ) Grant*

The Company has requested a change in scope of the development work being performed under its grant from the TSB. As a consequence, from April 1, 2016 the Company does not expect to incur any further expenditure eligible for reimbursement from TSB and will not receive any further payments from this grant in future periods.

**Financial operations overview**

***Revenue***

To date, we have not generated any revenue from the sales of our SPEAR T-cells. Our revenues have been solely derived from our collaboration and license agreement with GSK (the GSK Collaboration and License Agreement ). The terms of this arrangement contain multiple milestones associated with: (i) co-development of our NY-ESO SPEAR T-cells, (ii) associated manufacturing optimization work and (iii) co-development of other TCR target programs. GSK is also obligated to pay us certain milestone fees, which are generally non-refundable and are payable upon satisfactory completion of specified research and development activities.

In February 2016, the terms of the GSK Collaboration and License Agreement were expanded by an amendment agreement that became effective on February 2, 2016 (the Amendment Agreement ). The Amendment Agreement accelerates the development of our NY-ESO SPEAR T-cells towards pivotal trials in synovial sarcoma, as well as the exploration of development of NY-ESO SPEAR T-cells in myxoid round-cell liposarcoma. The Amendment Agreement also provides the opportunity for up to eight combination studies using our NY-ESO SPEAR T-cells. The Amendment Agreement increases the potential development milestones that the Company is eligible to receive but does not result in any additional separate standalone deliverables.

Consideration received under the GSK Collaboration and License is allocated between the separate deliverables within the arrangement and the revenue allocated to each is recognized as that revenue is earned. Milestone payments which are non-refundable, non-creditable and contingent on achieving clinical milestones are recognized as revenues either on achievement such milestones if the milestones are considered substantive or over the period the Company has continuing performance obligations, if the milestones are not considered substantive.

***Research and Development Expenses***

Research and development expenses consist principally of:

- salaries for research and development staff and related expenses, including benefits;

- costs for production of preclinical compounds and drug substances by contract manufacturers;

- fees and other costs paid to contract research organizations in connection with additional preclinical testing and the performance of clinical trials;

- costs of related facilities, materials and equipment;

- costs associated with obtaining and maintaining patents and other intellectual property;

- costs of acquired or in-licensed R&D which does not have alternative future use;

- amortization and depreciation of property, plant and equipment and intangible assets used to develop our SPEAR T-cells; and

- share-based compensation expenses.

Research and development expenditure is expensed as incurred.

Expenses related to clinical trials are based on estimates of the services received and efforts expended pursuant to contracts with multiple CROs that conduct and manage clinical trials on our behalf. The financial terms of these agreements are subject to negotiation, vary from contract to contract, and may result in uneven payment flows. This process involves reviewing open contracts and purchase orders, communicating with our personnel to identify services that have been performed on our behalf, and estimating the level of service performed and the associated cost incurred for the service when we have not yet been invoiced or otherwise notified of the actual cost. The majority of our service providers invoice us monthly in arrears for services performed. We make estimates of our accrued expenses as of each balance sheet date in our financial statements based on facts and circumstances known to us at that time.

Table of Contents

Although we do not expect our estimates to be materially different from amounts actually incurred, if our estimates of the status and timing of services performed differ from the actual status and timing of services performed, we may report amounts that are too high or too low in any particular period. To date, there has been no material difference between our estimates and the amount actually incurred.

Upfront and milestone payments to third parties for in-licensed products or technology which has not yet received regulatory approval and which does not have alternative future use in R&D projects or otherwise are expensed as incurred.

Milestone payments made to third parties either on or subsequent to regulatory approval are capitalized as an intangible asset and amortized over the remaining useful life of the product.

Research and development expenditure is presented net of reimbursements from government grants and R&D expenditure credits and reimbursable tax credits from the U.K. government, which are recognized over the period necessary to match the reimbursement with the related costs when it is probable that the Company has complied with any attached conditions and will receive the reimbursement.

As a company that carries out extensive research and development activities, we benefit from the U.K. research and development tax credit regime for small and medium sized companies, whereby our principal research subsidiary company, Adaptimmune Limited, is able to surrender the trading losses that arise from its research and development activities for a payable tax credit. A large proportion of costs in relation to our pipeline research, clinical trials management and manufacturing development activities, all of which are being carried out by Adaptimmune Limited, are eligible for inclusion within these tax credit cash rebate claims.

We may not be able to continue to claim research and development tax credits ( R&D tax credits ) in the future as we increase our personnel and expand our business because we may no longer qualify as an SME (small or medium-sized enterprise). In order to qualify as an SME for R&D tax credits, we must continue to be a company with fewer than 500 employees and also have either an annual turnover not exceeding 100 million or a balance sheet not exceeding 86 million.

Our research and development expenses may vary substantially from period to period based on the timing of our research and development activities, which depends upon the timing of initiation of clinical trials and the rate of enrollment of patients in clinical trials.

We may never succeed in achieving regulatory approval for any of our SPEAR T-cells. The duration, costs, and timing of clinical trials and development of our SPEAR T-cells will depend on a variety of factors, including:

- the scope, rate of progress, and expense of our ongoing as well as any additional clinical trials and other research and development activities;

- uncertainties in clinical trial enrollment rates;
- future clinical trial results;
- significant and changing government regulation; and
- the timing and receipt of any regulatory approvals.

A change in the outcome of any of these variables may significantly change the costs and timing associated with the development of that SPEAR T-cell. For example, if the FDA, or another regulatory authority, requires us to conduct clinical trials beyond those that we currently anticipate will be required for regulatory approval, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time on the completion of clinical development.

***General and Administrative Expenses***

Our general and administrative expenses consist principally of:

- salaries for employees other than research and development staff, including benefits;
- business development expenses, including travel expenses;

Table of Contents

- professional fees for auditors and other consulting expenses not related to research and development activities;

- professional fees for lawyers not related to the protection and maintenance of our intellectual property;

- cost of facilities, communication, and office expenses;

- information technology expenses;

- amortization and depreciation of property, plant and equipment and intangible assets not related to research and development activities; and

- share-based compensation expenses.

***Other income/(expense), net***

Other income/(expense), net includes foreign exchange gains and losses.

***Taxation***

We are subject to corporate taxation in the United Kingdom. Our subsidiary Adaptimmune LLC is subject to corporate taxation in the United States. Our tax recognized represents the sum of the tax currently payable or recoverable. No deferred tax assets are recognized on our losses carried forward because there is currently no indication that we shall make sufficient profits to utilize these tax losses.

Unsurrendered tax losses can be carried forward to be offset against future taxable profits. After accounting for tax credits receivable, there are accumulated tax losses for carry forward in the United Kingdom amounting to £28.8 million at December 31, 2015. These tax losses do not expire. No deferred tax asset is recognized in respect of accumulated tax losses on the basis that suitable future trading profits are not sufficiently certain.

We may also benefit in the future from the United Kingdom s patent box regime, which would allow certain profits attributable to revenues from patented products to be taxed at a rate that over time will be reduced to 10%. As we have many different patents covering our products, future upfront fees, milestone fees, product revenues, and royalties may be taxed at this favorably low tax rate.

VAT is charged on all qualifying goods and services by VAT-registered businesses. An amount of 20% of the value of the goods or services is added to all sales invoices and is payable to the U.K. tax authorities. Similarly, VAT paid on purchase invoice paid by Adaptimmune Limited and Adaptimmune Therapeutics plc is reclaimable from the U.K. tax authorities.

**Critical Accounting Policies and Significant Judgments and Estimates**

The preparation of our unaudited condensed consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the revenues and expenses incurred during the reported periods. We base our estimates on historical experience and on various other factors that we believe are relevant under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We discussed accounting policies and assumptions that involve a higher degree of judgment and complexity in Note 2 to the condensed consolidated financial statements in Part I of this Quarterly Report.

**Results of operations**

***Comparison of Three Months Ended March 31, 2016 and 2015***

The following table summarizes the results of our operations for the three months ended March 31, 2016 and 2015, together with the changes to those items.

Table of Contents

| (in thousands) | For the three Months Ended March 31, 2016 | 2015 | Increase/decrease | |
|---|---|---|---|---|
| **Revenue** | **$ 2,918** | **$ 2,728** | **$ 190** | **7%** |
| Research and development expenses | (13,888) | (5,976) | (7,912) | 132% |
| General and administrative expenses | (5,855) | (2,359) | (3,496) | 148% |
| **Total operating expenses** | **(19,743)** | **(8,335)** | **(11,408)** | 137% |
| **Operating loss** | **(16,825)** | **(5,607)** | **(11,218)** | 200% |
| Interest income | 259 | 110 | 149 | 135% |
| Other income, net | 1,049 | 3,603 | (2,554) | (71)% |
| **Total other income, net** | **1,308** | **3,713** | (2,405) | (65)% |
| **Loss before income taxes** | **(15,517)** | **(1,894)** | **(13,623)** | **719%** |
| Income taxes | (59) | (51) | (8) | 16% |
| **Loss for the period** | **$ (15,576)** | **$ (1,945)** | **$ (13,631)** | **701%** |

***Revenue***

Revenue increased from $2.7 million for the three months ended March 31, 2015 to $2.9 million for the three months ended March 31, 2016. Revenue on a constant exchange rate ( CER ) basis (a non-GAAP measure), which management uses to review revenue growth excluding the impact of foreign exchange rate movements, increased from $2.5 million for the three months ended March 31, 2015 million to $2.9 million for the three months ended March 31, 2016. This increase was primarily due to (a) revenue relating to development milestones achieved in August and December 2015, which is being recognized over the period in which we are delivering services under the GSK Collaboration and License Agreement, (b) partially offset by the impact of a change in the estimate during the three months ended December 31, 2015 of the period over which the Company is delivering services under the GSK Collaboration and License Agreement.

A description of Revenue on a CER basis (a non-GAAP measure) and reconciliation to the most directly comparable U.S. GAAP measure are provided below under Non-GAAP measures .

Although it is difficult to project the timing of achieving future development deliverables, we expect Revenue on a CER basis (a non-GAAP measure) in the year to December 31, 2016 to be higher than the year ended December 31, 2015 due to a full year s recognition of revenue relating to milestone payments achieved in 2015 and potential future development milestones.

***Research and Development Expenses***

Research and development expenses increased by 132% to $13.9 million for the three months ended March 31, 2016 from $5.6 million for the three months ended March 31, 2015.

Our research and development expenses are highly dependent on the phases of our research projects and therefore fluctuate from period to period.

The increase in our research and development expenses of $7.9 million for the three months ended March 31, 2016 compared to the same period in 2015 was primarily due to:

- a $5.3 million increase in salaries, materials, equipment, depreciation of tangible fixed assets and other employee-related costs. The driver for these is an increase in the average number of employees engaged in research and development from 67 to 257; and

- a $4.7 million increase in subcontracted expenditures, including clinical trial expenses, contract research organization (CRO) costs, and manufacturing expenses driven by increased recruitment in our clinical trials; partially offset by

- a $0.3 million decrease in share-based compensation expense due to a decrease in share-based compensation expense for nonemployee share options of $0.9 million offset by an increase in share-based compensation expense for employees of $0.6 million; and

- a $1.8 million increase in reimbursements in the form of grants and R&D expenditure credits and tax credits from the U.K. government.

Table of Contents

As of March 31, 2016, we employed 59 employees responsible for development of our SPEAR T-cells targeting NY-ESO compared to 8 employees as of March 31, 2015. The remainder of our scientific employees are engaged in developing our future pipeline.

Our subcontracted costs for the three months ended March 31, 2016 were $6.6 million, of which $3.0 million related to our NY-ESO SPEAR T-cells and the remaining $3.6 million related to other projects, including our MAGE-A10 and AFP SPEAR T-cells.

During the calendar year ended December 31, 2016, we plan to increase the number of clinical trials we are running, both in new therapies (including our MAGE-A-10 and AFP SPEAR T-cells) and as part of the GSK Collaboration and License Agreement for our NY-ESO SPEAR T-cells. We expect to increase the number of staff employed in our research and development departments in order to invest in our future pipeline of SPEAR T-cells, develop our platform and manage clinical trials. This will significantly increase the related salaries and share-based compensation expenses, as well as require higher expenditures on facilities, materials and equipment.

The share-based compensation expense will fluctuate in future periods due to changes in the assumptions to the fair value calculation for nonemployee share options, which include the share price, interest rates, volatility and expected term. A 5% increase in the share price at March 31, 2016 would have increased the share-based compensation expense for the three months to March 31, 2016 by approximately $50,000.

***General and Administrative Expenses***

General and administrative expenses increased by 148% to $5.9 million for the three months ended March 31, 2016 from $2.4 million in the same period in 2015.

The increase of $3.5 million was due to:

- $1.0 million of increased personnel costs, primarily due to the addition of key management and other professionals to support our growth;
- $0.7 million of increased share-based payment expenses;
- $0.6 million of increased property costs; and

- $1.2 million of increased other corporate costs, including costs in relation to our Nasdaq listing, consultants, additional audit costs and investor relations.

We expect that our general and administrative expenses will continue to increase, primarily due to the costs of operating as a public company, such as additional legal, accounting, and corporate governance expenses, including expenses related to compliance with the Sarbanes-Oxley Act, directors and officers insurance premiums, and investor relations.

***Other Income***

Other income decreased by 71% to $1.0 million for the three months ended March 31, 2016 from $3.6 million for the three months ended March 31, 2015 due to a decrease in unrealized foreign exchange gains on cash and cash equivalents and short-term deposits held in U.S. dollars.

**Liquidity and Capital Resources.**

***Sources of Funds***

Since our inception, we have incurred significant net losses and negative cash flows from operations. We financed our operations primarily through an initial public offering, placements of equity securities, cash receipts under our GSK Collaboration and License Agreement, government grants and research and development tax credits. From inception through to March 31, 2016, we have raised:

- $307.3 million, net of issue costs, through the issuance of shares, of which $176.0 million was raised through our initial public offering in May 2015;
- $63.7 million upfront fees and milestones under our GSK Collaboration and License Agreement;
- $2.4 million of income in the form of government grants from the United Kingdom; and
- $5.1 million in the form of research and development tax credits and receipts from the UK RDEC Scheme.

Table of Contents

The Company uses a non-GAAP measure, Total Liquidity Position, which is defined as Cash and cash equivalents plus Short-term deposits to evaluate the funds available to the Company in the near-term. A description of Total Liquidity Position and reconciliation to the most directly comparable U.S. GAAP measure are provided below under Non-GAAP measures .

As of March 31, 2016, we had cash and cash equivalents of $163.8 million, in addition to short-term deposits of $62.3 million. Our Total Liquidity Position as of March 31, 2016 was $226.1 million. We believe that our Total Liquidity Position as of March 31, 2016 will be sufficient to fund our operations, including currently anticipated research and development activities and planned capital spending for at least the next twelve months.

***Cash Flows***

The following table summarizes the results of our cash flows for the three months ended March 31, 2016 and 2015 (in thousands).

| | For the three months ended March 31, | |
|---|---|---|
| | **2016** | **2015** |
| Net cash used in operating activities | $ (18,679) | $ (5,643) |
| Net cash used in investing activities | (10,564) | (672) |
| Net cash used in financing activities | | |
| Cash and cash equivalents at the end of the period | 163,766 | 92,599 |

***Operating Activities***

Net cash used in operating activities increased by $13.0 million to $18.7 million for the three months ended March 31, 2016 from $5.6 million for the three months ended March 31, 2015. The increase in cash used in operations of $13.0 million was primarily the result of an increase in research and development costs due to the ongoing advancement of our preclinical programs and clinical trials and an increase in general and administrative expenses. Net cash used in operating activities is impacted by the timing of milestone payments received from GSK under the GSK Collaboration and License Agreement. In the three months ended March 31, 2016, the Company received $3.5 million of milestone payments from GSK compared to $3.0 in the three months ended March 31, 2015.

***Components of cash flows from operating activities***

Net cash used in operating activities of $18.7 million for the three months ended March 31, 2016 comprised a net loss of $15.6 million and net cash inflow of $4.3 million from changes in operating assets and liabilities, partially offset by noncash items of $1.2 million. The noncash items consisted primarily of depreciation expense on plant and equipment of $0.7 million and equity-settled share-based compensation expense of $2.1 million, partially offset by unrealized foreign exchange gains of $1.6 million.

Net cash used in operating activities of $5.6 million for the three months ended March 31, 2015 comprised a net loss of $1.9 million, noncash items of $2.1 million and net cash outflow of $1.6 million from changes in operating assets and liabilities. The noncash items consisted primarily of unrealized foreign exchange gains of $3.6 million, partially offset by depreciation expense on plant and equipment of $0.1 million and equity-settled share-based compensation expense of $1.5 million. The changes in operating assets and liabilities is predominately due to an increase in trade and other payables as a result of increased expenditure.

***Investing Activities***

Net cash used in investing activities was $10.6 million and $0.7 million for the three months ended March 31, 2016 and 2015, respectively. Net cash used in investing activities for the three months ended March 31, 2016 comprised net investment in short-term deposits of $8.0 million, purchases of property and equipment of $1.7 million and acquisition of intangibles of $0.9 million for the three months ended March 31, 2016. The purchases of property, plant and equipment for the three months ended March 31, 2016 related predominantly to the investment in our laboratory facilities in the United Kingdom. Net cash used in investing activities for the three months ended March 31, 2015 comprised purchases of property and equipment of $0.7 million.

**Non-GAAP measures**

***Revenue on a constant exchange rate ( CER ) basis (a non-GAAP financial measure)***

Revenue on a constant exchange rate basis (a non-GAAP financial measure) is computed as the revenue recognized in the

Table of Contents

comparative period translated from local currency to U.S. dollar using the average exchange rate for the current period. Average exchange rates for the three months to March 31, 2015 and the three months to March 31, 2016 were $1.5128 to £1 and $1.3971 to £1 respectively. The U.S. GAAP financial measure most directly comparable to Revenue on a CER basis is Revenue as reported in the Consolidated Financial Statements.

The Company believes that the presentation of Revenue on a CER basis provides useful information to investors because management uses this measure to review the revenue growth excluding the impact of foreign exchange.

***Total Liquidity Position (a non-GAAP financial measure)***

Total Liquidity Position (a non-GAAP financial measure) is defined as Cash and cash equivalents plus Short-term deposits. Each of these components appears in the Consolidated Statements of Financial Position. The U.S. GAAP financial measures most directly comparable to Total Liquidity Position is Cash and cash equivalents and Short-term deposits as reported in the Consolidated Financial Statements.

| **(in thousands)** | **March 31, 2016** | **December 31, 2015** |
|---|---|---|
| Cash and cash equivalents | $ 163,766 | $ 194,263 |
| Short-term deposits | 62,337 | 54,620 |
| Total Liquidity Position | $ 226,103 | $ 248,883 |

The Company believes that the presentation of Total Liquidity Position provides useful information to investors because management reviews Total Liquidity Position as part of its management of overall liquidity, financial flexibility, capital structure and leverage.

**Off-Balance Sheet Arrangements**

We did not have during the periods presented, and we do not currently have, any off-balance sheet arrangements, as defined in the rules and regulations of the SEC other than operating leases as described in Part I: Item 5 of the Company s Transition Report on Form 20-F for the period ended December 31, 2015.

**Contractual Obligations**

As of March 31, 2016 there have been no material changes to the Company s contractual obligations previously disclosed in Part I: Item 5 of the Company s Transition Report on Form 20-F for the period ended December 31, 2015.

**Safe Harbor**

See the section titled Information Regarding Forward-Looking Statements at the beginning of this Quarterly Report

Table of Contents

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

Market risk arises from our exposure to fluctuation in interest rates and currency exchange rates. These risks are managed by maintaining an appropriate mix of cash deposits in various currencies, placed with a variety of financial institutions for varying periods according to expected liquidity requirements.

We are exposed to market risks in the ordinary course of our business, which are principally limited to interest rate fluctuations and foreign currency exchange rate fluctuations, particularly between pound sterling and U.S. dollar. These risks are managed by maintaining an appropriate mix of cash deposits in various currencies, placed with a variety of financial institutions for varying periods according to expected liquidity requirements.

***Interest Rate Risk***

As of March 31, 2016, we had cash and cash equivalents of $163.8 million and short-term deposits of $62.3 million. Our exposure to interest rate sensitivity is impacted by changes in the underlying U.K. and U.S. bank interest rates. Our surplus cash and cash equivalents are invested in interest-bearing savings and money market accounts from time to time. We have not entered into investments for trading or speculative purposes. Due to the conservative nature of our investment portfolio, which is predicated on capital preservation of investments with short-term maturities, we do not believe an immediate one percentage point change in interest rates would have a material effect on the fair market value of our portfolio, and therefore we do not expect our operating results or cash flows to be significantly affected by changes in market interest rates.

***Currency Risk***

Our presentational currency is the U.S. dollar. However, we incur a significant proportion of expenses in other currencies, particularly pounds sterling (GBP), and are exposed to the effects of exchange rates. We seek to minimize this exposure by passively maintaining other currency cash balances at levels appropriate to meet foreseeable expenses in these other currencies. We do not use forward exchange contracts to manage exchange rate exposure. A 1% increase in exchange rates would have increased the carrying value of our net financial assets and liabilities in foreign currencies as of March 31, 2016 by $0.4 million.

***Credit Risk***

The Company held cash and cash equivalents of $163,766,000 and short-term deposits of $62,337,000 at March 31, 2016. The cash and cash equivalents and short-term deposits are held with multiple banks and the Company monitors the credit rating of those banks.

There are no material trade receivables as of March 31, 2016. Material trade receivables may arise in future periods in relation to the GSK Collaboration and License Agreement. The Company has been transacting with GSK for 22 months, during which time no impairment losses have been recognized. There are no amounts which are past due at March 31, 2016.

***Commodity Price Risk***

We are exposed to commodity price risk as a result of our operations. However, given the size of our operations, the costs of managing exposure to commodity price risk exceed any potential benefits. We will revisit the appropriateness of this policy should our operations change in size or nature. We have no exposure to equity securities price risk as we hold no listed or other equity investments.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e)) under the Securities and Exchange Act of 1934, as amended ( Exchange Act ) as of March 31, 2016. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2016, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms, and is accumulated and communicated to our management, including our Chief Executive and Chief Financial Officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Table of Contents

**Changes in Internal Control over Financial Reporting**

This Quarterly Report does not include any report or update of management s assessment regarding internal control over financial reporting due to a transition period established by the SEC s rules for newly public companies.

**PART II - OTHER INFORMATION**

**Item 1. Legal Proceedings.**

As of March 31, 2016, we were not a party to any material legal proceedings.

**Item 1A. Risk Factors.**

*Our business has significant risks. You should carefully consider the following risk factors as well as all other information contained in this Quarterly Report, including our condensed consolidated financial statements and the related notes, before making an investment decision regarding our securities. The risks and uncertainties described below are those significant risk factors currently known and specific to us that we believe are relevant to our business, results of operations and financial condition. Additional risks and uncertainties not currently known to us or that we now deem immaterial may also impair our business, results of operations and financial condition.*

**Risks Related to Our Financial Condition and Capital Requirements**

***We are a clinical-stage biopharmaceutical company with no commercial products and prediction of future performance is very difficult.***

We are a clinical-stage biopharmaceutical company focused on novel cancer immunotherapy products. We have no products or therapeutics approved for commercial sale and have not generated any revenue from product supplies or royalties. Our therapeutic candidates are based on engineered T-cell receptors, or TCRs, and are new and largely unproven. Our limited operating history, particularly in light of the rapidly evolving cancer immunotherapy field, may make it difficult to evaluate our current business and predict our future performance. Investment in biopharmaceutical product development is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate effect or an acceptable safety profile, gain regulatory approval and become commercially viable. Our inability to address these risks successfully would have a materially adverse effect on our business and prospects.

***We have incurred net losses every year since our inception and expect to continue to incur net losses in the future.***

We have generated losses since our inception in 2008, during which time we have devoted substantially all of our resources to research and development efforts relating to our SPEAR T-cells, including engaging in activities to manufacture and supply our SPEAR T-cells for clinical trials in compliance with current good manufacturing practices, or cGMP, conducting clinical trials of our SPEAR T-cells, providing general and administrative support for these operations and protecting our intellectual property. We do not have any products approved for sale and have not generated any revenue from product supplies or royalties. Based on our current plans, we do not expect to generate product or royalty revenues unless and until we obtain marketing approval for, and commercialize, any of our SPEAR T-cells.

For the years ended December 31, 2015, 2014 and 2013, we incurred net losses of $39.5 million, $12.2 million and $9.6 million, respectively. As of March 31, 2016, we had accumulated losses of $105.5 million. We expect to continue incurring significant losses as we continue with our research and development programs and to incur general and administrative costs associated with our operations. The extent of funding required to develop our product candidates is difficult to estimate given the novel nature of our SPEAR T-cells and their un-proven route to market. Our profitability is dependent upon the successful development, approval, and commercialization of our SPEAR T-cells, successfully achieving GSK milestones and achieving a level of revenues adequate to support our cost structure. We may never achieve profitability, and unless and until we do, we will continue to need to raise additional cash.

***We have never generated any revenue from sales of our SPEAR T-cells and our ability to generate revenue from sales of our SPEAR T-cells and become profitable depends significantly on our success in a number of factors.***

We have no SPEAR T-cells approved for commercial sale, have not generated any revenue from sales of our SPEAR T-cells, and do not anticipate generating any revenue from sales of our SPEAR T-cells until some time after we receive regulatory approval, if at all, for the commercial sale of a SPEAR T-cell. We intend to fund future operations through milestone payments under our collaboration and license agreement with GSK and through additional equity financings or other third party collaborations. Our ability to generate revenue and achieve profitability depends on our success in many factors, including:

Table of Contents

- completing research regarding, and preclinical and clinical development of, our SPEAR T-cells;

- obtaining regulatory approvals and marketing authorizations for our SPEAR T-cells for which we complete clinical trials;

- progressing our clinical trials within predicted timeframes and without any substantial delays, for example as may be caused by delays in patient recruitment, regulatory requirements to hold or suspend any clinical trials or delays in obtaining approvals required to conduct clinical trials;

- developing sustainable and scalable manufacturing and supply processes for our SPEAR T-cells, including establishing and maintaining commercially viable supply relationships with third parties and establishing our own commercial manufacturing capabilities and infrastructure;

- launching and commercializing SPEAR T-cells for which we obtain regulatory approvals and marketing authorizations, either directly or with a collaborator or distributor;

- obtaining market acceptance of our SPEAR T-cells as viable treatment options;

- addressing any competing technological and market developments;

- identifying, assessing, acquiring and/or developing new SPEAR T-cells;

- maintaining, protecting, and expanding our portfolio of intellectual property rights, including patents, trade secrets and know-how; and

- attracting, hiring and retaining qualified personnel.

Even if one or more of our SPEAR T-cells is approved for commercial sale, we anticipate incurring significant costs associated with commercializing any approved SPEAR T-cell. Our expenses could increase beyond expectations if the U.S. Food and Drug Administration, or the FDA, or any other regulatory agency requires changes to our manufacturing processes or assays, or for us to perform preclinical programs and clinical or other types of trials in addition to those that we currently anticipate. If we are successful in obtaining regulatory approvals to market one or more of our SPEAR T-cells, our revenue will be dependent, in part, upon the size of the markets in the territories for which we gain regulatory approval, the accepted price for the SPEAR T-cell, the ability to get reimbursement at any price, and whether we own the commercial rights for that territory. If the number of our addressable disease patients is not as significant as we estimate, the indication approved by regulatory authorities is narrower than we expect, or the reasonably accepted population for treatment is narrowed by competition, physician choice or treatment guidelines, we may not generate significant revenue from sales or supplies of such SPEAR T-cells, even if approved. If we are not able to generate revenue from the sale of any approved SPEAR T-cells, we may never become profitable.

***If we fail to obtain additional financing, we may be unable to complete the development and commercialization of our SPEAR T-cells.***

Our operations have required substantial amounts of cash since inception. We expect to continue to spend substantial amounts to continue the development of our SPEAR T-cells, including future clinical trials. If we receive approval for any of our SPEAR T-cells, we will require significant additional amounts in order to launch and commercialize these therapeutic candidates.

As of March 31, 2016, we had $194.3 million of cash and cash equivalents and $54.6 million of short-term deposits. We expect to use these funds to advance and accelerate the clinical development of our MAGE-A10 SPEAR T-cell, to further develop and enhance our manufacturing capabilities and secure a commercially viable manufacturing platform for all of our SPEAR T-cells, to advance additional SPEAR T-cells into preclinical testing and progress such SPEAR T-cells through to clinical trials as quickly as possible and to fund working capital, including other general corporate purposes. We believe that such proceeds, our existing cash, and cash equivalents and short-term deposits together with milestones payments to us under the GSK Collaboration and License Agreement will be sufficient to fund our operations for the foreseeable future, including for at least the next 12 months. However, changing circumstances beyond our control may cause us to increase our spending significantly faster than we currently anticipate. We may require additional capital for the further development and commercialization of our SPEAR T-cells and may need to raise additional funds sooner if we choose to expand more rapidly than we presently anticipate.

We cannot be certain that additional funding will be available on acceptable terms, or at all. We have no committed source of additional capital and if we are unable to raise additional capital in sufficient amounts or on terms acceptable to us, we may have to significantly delay, scale back or discontinue the development or commercialization of our SPEAR T-cells or other research and development initiatives. Our license and supply agreements may also be terminated if we are unable to meet the payment obligations

Table of Contents

under these agreements. We could be required to seek collaborators for our SPEAR T-cells at an earlier stage than otherwise would be desirable or on terms that are less favorable than might otherwise be available or relinquish or license on unfavorable terms our rights to our SPEAR T-cells in markets where we otherwise would seek to pursue development or commercialization ourselves. Any of the above events could significantly harm our business, prospects, financial condition and results of operations and cause the price of our ADSs to decline.

**Risks Related to the Development of Our SPEAR T-cells**

***Our business is highly dependent on our lead NY-ESO SPEAR T-cell, which will require significant additional clinical testing before we can seek regulatory approval and begin commercialization of any of our SPEAR T-cells.***

There is no guarantee that any of our SPEAR T-cells will achieve regulatory approval or proceed to the next stage of clinical programs. The process for obtaining marketing approval for any candidate is very long and risky and there will be significant challenges for us to address in order to obtain marketing approval, if at all.

There is no guarantee that the results obtained in current clinical trials for our NY-ESO SPEAR T-cell will be sufficient to plan one or more pivotal clinical trials and obtain regulatory approval or marketing authorization. Negative results in this lead clinical program of our NY-ESO SPEAR T-cell or in other investigator-initiated clinical programs utilizing our NY-ESO therapeutic candidate may also impact our ability to obtain regulatory approval for other SPEAR T-cells, either at all or within anticipated timeframes because, although the SPEAR T-cell may target a different cancer peptide, the underlying technology platform, manufacturing process and development process is the same for all of our SPEAR T-cells. Accordingly, a failure in any one program may affect the ability to obtain regulatory approval to continue or conduct clinical programs for other SPEAR T-cells.

***We may not be able to submit INDs, or the foreign equivalent outside of the United States, to commence additional clinical trials for other SPEAR T-cells on the timeframes we expect, and even if we are able to, the FDA or comparable foreign regulatory authorities may not permit us to proceed with planned clinical trials.***

Progression of new SPEAR T-cells into clinical trials is inherently risky and dependent on the results obtained in preclinical programs, the results of other clinical programs and results of third-party programs that utilize common components, such as production of the lentiviral vector lot used for production and administration of our SPEAR T-cell. If results are not available when expected or problems are identified during therapy development, we may experience significant delays in development of pipeline products and in existing clinical programs, which may impact our ability to receive regulatory approval. This may also impact our ability to achieve certain financial milestones and the expected timeframes to market any of our SPEAR T-cell. Failure to submit further INDs or the foreign equivalent and commence additional clinical programs will significantly limit our opportunity to generate revenue.

We are currently in the process of developing our Mage-A4 SPEAR T-cell. Our ability to submit an IND for our Mage-A4 SPEAR T-cell will depend on the completion of initial and preclinical development and the design of a protocol for use of that Mage-A4 SPEAR T-cell which is acceptable to the FDA or any foreign equivalent regulatory authority. Progression of our Mage-A4 SPEAR T-cell into clinical programs will depend on our ability to find clinical sites able and willing to carry out such clinical programs and recruitment of patients into resulting clinical programs.

***Our SPEAR T-cells being developed may have potentially fatal cross-reactivity to other peptides or protein sequences within the body.***

One of our prior SPEAR T-cells, designed to target a MAGE-A3 cancer-specific peptide, recognized another unrelated peptide from a protein called TITIN, expressed within normal cardiac and other muscle tissues in patients. As a result of this cross-reactivity to the TITIN protein in the heart, two patients died during our MAGE-A3 clinical program, the program was put on pause, then formally placed on hold by the FDA, after which we abandoned the program. We subsequently developed a preclinical safety testing program that identifies potential cross-reactivity risks that has not yet been used for our existing SPEAR T-cells, and accordingly, there may be gaps or other problems detected in the testing program at a later date. Even with the use of this testing program, there can be no guarantee that the FDA will permit us to begin clinical trials of any additional SPEAR T-cells or that other off-target cross-reactivity will not be identified or present in any patient group. Failure to develop an effective preclinical safety testing program will prevent or delay clinical trials of any SPEAR T-cell. Detection of any cross-reactivity will halt or delay any ongoing clinical trials for any SPEAR T-cell and prevent or delay regulatory approval. Given that the underlying technology platform, manufacturing process and development process is the same for all of our TCR therapies, issues pertaining to cross-reactivity for one SPEAR T-cell may impact our ability to obtain regulatory approval for other SPEAR T-cells undergoing development and clinical trials, which would significantly harm our business, prospects, financial condition and results of operations.

Cross-reactivity or allo-reactivity (binding to peptides presented on other Human Leukocyte Antigen, or HLA, types) could also occur where the affinity-enhanced engineered TCR resulting from administration of our SPEAR T-cell binds to peptides presented by HLAs other than the HLA type for which the relevant TCR was developed. We have also developed a preclinical

Table of Contents

screening process to identify allo-reactivity risk and have identified such allo-reactivity for one rare allele in the case of our MAGE-A10 SPEAR T-cell. Any allo-reactivity or other cross-reactivity that impacts patient safety could materially impact our ability to advance our SPEAR T-cells into clinical trials or to proceed to market approval and commercialization. In addition, there is no guarantee that exclusion of patients with the allo-reactive allele will successfully eliminate the risk of allo-reactivity, and serious side effects for patients may still exist. Given that the underlying technology platform, manufacturing process and development process are the same for all of our SPEAR T-cells, issues pertaining to allo-reactivity for one SPEAR T-cell may impact our ability to obtain regulatory approval for other SPEAR T-cells undergoing development and clinical trials, which would significantly harm our business, prospects, financial condition and results of operations.

***Our T-cell therapy, which is a type of cell therapy that uses gene therapy technology, represents a novel approach to cancer treatment that could result in heightened regulatory scrutiny, delays in clinical development, or delays in or our inability to achieve regulatory approval or commercialization of our SPEAR T-cells.***

Use of our SPEAR T-cells to treat a patient requires the use of gene therapy technology, which involves combining the patient s T cells with our lentiviral delivery vector containing the gene for our affinity-enhanced engineered TCR. This is a novel treatment approach that carries inherent development risks. We are therefore constantly evaluating and adapting our SPEAR T-cells following the results obtained during development work and the clinical programs. Further development, characterization and evaluation may be required, depending on the results obtained, in particular where such results suggest any potential safety risk for patients. The need to develop further assays, or to modify in any way the protocols related to our SPEAR T-cells to improve safety or effectiveness, may delay the clinical program, regulatory approval or commercialization, if approved at all, of any SPEAR T-cell. Consequently, this may have a material impact on our ability to receive milestone payments and/or generate revenues from our SPEAR T-cells.

In addition, given the novelty of our SPEAR T-cells, the end users and medical personnel require a substantial amount of education and training in their administration of our SPEAR T-cells. Regulatory authorities have very limited experience with commercial engineered cell therapies and SPEAR T-cells for the treatment of cancer. As a result, regulators may be more risk adverse or require substantial dialogue and education as part of the normal regulatory approval process for each stage of development of any SPEAR T-cell. To date, on a limited number of gene therapy products have been approved in the United States and European Union. Consequently, it is difficult to predict and evaluate what additional regulatory hurdles may apply to the development of our SPEAR T-cells and whether additional investment, time or resources will be required to overcome any such hurdles.

Additionally, because our technology involves the genetic modification of patient cells *ex-vivo* using a viral vector, we are subject to many of the challenges and risks of gene therapy, including the following challenges:

- Regulatory requirements governing gene and cell therapy products have changed frequently and may continue to change in the future.

- Random gene insertion associated with retrovirus-mediated genetically modified products, known as insertional oncogenesis, could lead to lymphoma, leukemia or other cancers, or other aberrantly functioning cells. Insertional oncogenesis was seen in early gene therapy studies conducted outside of the United States in 2003. In those studies, insertional oncogenesis resulted in patients developing leukemia following treatment with the relevant gene therapy, with one patient dying. As a result of the data from those studies, the FDA temporarily halted gene

therapy trials in the United States. The previous trials involved modification of stem cells rather than T cells and utilized a murine gamma-retroviral vector rather than a lentiviral vector. We cannot guarantee that insertional oncogenesis resulting from administration of our SPEAR T-cells will not occur.

- Although our viral vectors are not able to replicate, there may be a risk with the use of retroviral or lentiviral vectors that they could undergo recombination and lead to new or reactivated pathogenic strains of virus or other infectious diseases.

- There is the potential for delayed adverse events following exposure to gene therapy products due to persistent biological activity of the genetic material or other components of products used to carry the genetic material. In part for this reason, the FDA recommends a 15-year follow-up observation period for all surviving patients who receive treatment using gene therapies in clinical trials. We may need to adopt such an observation period for our therapeutic candidates; however, the FDA does not require that the tracking be complete prior to its review of the Biologics License Application, or BLA.

- Clinical trials using genetically modified cells conducted at institutions that receive funding for recombinant DNA research from the U.S. National Institutes of Health, or NIH, may be subject to review by the NIH Office of Biotechnology Activities Recombinant DNA Advisory Committee, or RAC. The RAC review process can delay or impede the initiation of a clinical trial. New guidelines were introduced by the NIH in April 2016 relating to the RAC review process for protocols using genetically modified cells and there is uncertainty as to how the new guidelines will

Table of Contents

operate. This could lead to increased delays in the approval of our protocols or additional education of institution review committees or boards being required during the protocol review process.

If adverse events of the type described above were to occur, further advancement of our clinical trials could be halted or delayed, which would have a material adverse effect on our business and operations. In addition, heightened regulatory scrutiny of gene therapy product candidates may result in delays and increased costs in bringing a product candidate to market, if at all. Delay or failure to obtain, or unexpected costs in obtaining, the regulatory approval necessary to bring a potential product to market could decrease our ability to generate revenue in the future.

***T-cell therapy is a novel approach to cancer treatment that creates significant increased risk in terms of side-effect profile, ability to satisfy regulatory requirements associated with clinical trials and the long- term viability of administered SPEAR T-cells.***

Development of a pharmaceutical or biologic therapy or product has inherent risks based on differences in patient population and responses to therapy and treatment. The mechanism of action and impact on other systems and tissues within the human body following administration of our SPEAR T-cell is not completely understood, which means that we cannot predict the long-term effects of treatment with our SPEAR T-cells.

We are aware that certain patients do not respond to our SPEAR T-cells and that other patients may relapse or cease to present the peptide being targeted by such SPEAR T-cells. The percentage of the patient population in which these events may occur is unknown, but the inability of patients to respond and the possibility of relapse may impact our ability to conduct clinical trials, to obtain regulatory approvals, if at all, and to successfully commercialize any SPEAR T-cell.

Our clinical trials and the investigator-initiated clinical trials using our NY-ESO TCR therapeutic are still in the early stages, and it is difficult to predict the results that will be obtained in ongoing clinical trials or the next phase or phases of any clinical program.

There is a significant risk at each stage of any clinical program that serious adverse events or low efficacy, as well as less favorable benefit:risk profiles, will prevent our SPEAR T-cells from proceeding further or will result in those programs being suspended or placed on hold (whether voluntarily or as a result of a regulatory authority requirement). For example, there is a risk that the target (or similar) peptide to which any SPEAR T-cell is directed may be present in both patients cancer cells and other non-cancer cells and tissues. Should this be the case patients may suffer a range of side effects associated with the SPEAR T-cell binding to both the cancer cells and/or other cells and tissues and such side effects could cause patient death. The extent of these side effects will depend on which cells and tissues are affected as well as the degree to which the target (or similar) peptide is expressed in these cells and tissues.

In our NY-ESO SPEAR T-cell trials, adverse events that have been reported as of 27 January 2016 in more than 15% of patients and considered by investigators to be at least possibly related to our NY-ESO SPEAR T-cell include: rash, diarrhea, fever, fatigue, nausea, anemia, low white blood cell, neutrophil, lymphocyte and platelet counts, vomiting, abnormal liver chemistry tests, cough, and cytokine release syndrome. Serious adverse events (SAEs) have also been reported on our Company sponsored clinical programs. SAEs considered by investigators to be at least possibly related and occurring in more than one patient include: fever, cytokine release syndrome, diarrhea, low white blood cell, neutrophil, lymphocyte and platelet counts, graft versus host disease (GVHD), and dehydration. To date, GVHD, impacting the skin and gastrointestinal tract, has only been reported in our myeloma study involving autologous stem cell transplants (auto-SCT). Although GVHD is a known complication of auto-SCT, symptoms such as rash, colitis and diarrhea have been reported in other NY-ESO SPEAR T-cell studies. There have

also been reports of serious unexpected adverse reactions considered at least possibly related by investigators: grade 4 supraventricular tachycardia (SVT) in one patient and grade 4 respiratory failure with grade 4 febrile neutropenia in a second patient in our Company sponsored trials. This second patient recovered from respiratory failure and febrile neutropenia but later experienced fatal bone marrow failure.

Also, in our ovarian cancer trial with our NY-ESO SPEAR T-cell, the first patient treated experienced a grade 3 cytokine release syndrome at day seven post-infusion, concomitant with a significant proliferation of the engineered T cells that constituted the majority of the peripheral white blood cells at day 14. This level of cytokine release syndrome had not been seen in previous results from trials using our NY-ESO SPEAR T-cell. The patient s tumor markers were also falling during this time. To manage the cytokine release syndrome, the patient was treated with high dose steroids that likely abrogated the engineered T-cell function. The protocol has been modified to allow for use of the anti-IL6R antibody, tocilizumab, for treatment of cytokine release syndrome in future patients. Tocilizumab has been shown to control cytokine release syndrome likely without abrogating the anti-tumor response.

In addition to our Company sponsored clinical programs, a similar product using our NY-ESO SPEAR T-cell is being used in an investigator-initiated clinical program in Europe. The clinical program forms part of a European Framework grant collaboration program known as ATTACK 2 (Adoptive engineered T-cell Targeting to Activate Cancer Killing) which is led by the University of Manchester. This clinical program currently uses a different manufacturing process, and the protocol has a different pre-conditioning regimen which includes the use of Interleukin-2 (IL-2). To date, two patients have been treated in this program, one of whom experienced fatal gastrointestinal bleeding, cytokine release syndrome, and bone marrow failure, and passed away 46 days after T-cell

Table of Contents

infusion. Following this event the ATTACK-OG study suspended recruitment. The underlying cause of these events is under investigation by the ATTACK consortium and the Company. Following review of the initial results from that investigation recruitment is planned to re-start after a protocol amendment is approved. The enrolment of patients in our own sponsored clinical trials using our NY-ESO SPEAR T-cells have so far not been affected, although regulatory authorities in the United Kingdom and United States were informed of the event. When recruitment re-starts in this program, if any safety risk to patients is identified which is potentially associated with our NY-ESO TCR, our Company sponsored clinical trials could be affected, including the possibility of being placed on hold.

Because administration of our SPEAR T-cells is patient-specific, the process requires careful handling of patient-specific products and fail-safe tracking, namely the need to ensure that the tracking process is without error and that patient samples are tracked from patient removal, through manufacturing and re-administration to the same patient. It is difficult to predict the investment in appropriate mechanisms and systems that will be required to ensure such fail-safe tracking and there is always a risk of a failure in any such system. Inability to develop or adopt an acceptable fail-safe tracking methodology and handling regime may delay or prevent us from receiving regulatory approval. This risk may be increased where our SPEAR T-cells are used in clinical programs that we do not control or sponsor and, should an error be made in the administration of our SPEAR T-cells in such clinical programs, this could affect the steps required in our own clinical programs and manufacturing process requiring the addition of further tracking mechanisms to ensure fail-safe tracking.

***Validation of our SPEAR T-cells requires access to human samples but there is no guarantee that such samples can be obtained or, if they can be obtained, that the terms under which they are provided will be favorable to us.***

Certain of the steps involved in validating and carrying out safety testing in relation to our SPEAR T-cells require access to samples (e.g., tissues samples or cell samples) from third parties. Such samples may be obtained from universities or research institutions and will often be provided, subject to satisfaction of certain terms and conditions. There can be no guarantee that we will be able to obtain samples in sufficient quantities to enable development of and use of the full preclinical safety testing program for all SPEAR T-cells undergoing development. In addition, the terms under which such samples are available may not be acceptable to us or may restrict our use of any generated results or require us to make payments to the third parties.

***Our SPEAR T-cells and their application are not fully scientifically understood and are still undergoing validation and investigation.***

Our SPEAR T-cells and their potential associated risks are still under investigation. For example, there is a potential risk that, given that the TCR chains are produced separately and then assembled within patient T cells into full TCRs, the TCR chains from both transduced and naturally occurring T cells could be assembled into an unintended end TCR due to mis-pairing of TCR chains, which could create unknown recognition and cross-reactivity problems within patients. Although this phenomenon has not been reported in humans, it remains a theoretical risk for our SPEAR T-cells and is still being studied and investigated. This could delay regulatory approval, if any, for the relevant SPEAR T-cells. To the extent that any mis-pairing of TCR chains is identified, either in our or our competitors clinical trials, additional investment may be required in order to modify relevant SPEAR T-cells and to further assess and validate the risk of such mis-pairing to patients. There is also no guarantee that following modification of the relevant SPEAR T-cell, such modified SPEAR T-cell will remain suitable for patient treatment, that it will eliminate the risk of mis-pairing of TCR chains or that regulatory approval will be obtained at all or on a timely basis in relation to such modified SPEAR T-cells. The occurrence of such events could significantly harm our business, prospects, financial condition and results of operations.

***We may not be able to identify and validate additional target peptides or isolate and develop affinity-enhanced TCRs that are suitable for validation and further development.***

The success of our SPEAR T-cells depends on both the identification of target peptides presented on cancer cells, which can be bound by TCRs, and isolation and affinity enhancement of TCRs, which can be used to treat patients if regulatory approval is obtained. There is an inherent risk that the number of target peptides that can be identified and/or our ability to develop and isolate suitable TCRs for affinity enhancement could be significantly lower than projected or that no additional SPEAR T-cells suitable for further development can be identified. Any failure to identify and validate further target peptides will reduce the number of potential SPEAR T-cells that we can successfully develop, which in turn will reduce the commercial opportunities available to us and increase our reliance on our NY-ESO SPEAR T-cell, Mage A-10 SPEAR T-cell and AFP SPEAR T-cell.

In addition, there is no guarantee that our attempts to develop further SPEAR T-cells will result in candidates for which the safety and efficacy profiles enable progression to and through preclinical testing. Failure to identify further candidates for progression into preclinical testing and clinical programs will significantly impact our commercial returns, increase our reliance on the success of our existing NY-ESO, AFP and MAGE-A10 SPEAR T-cell programs and may significantly harm our business, prospects, financial condition and results of operations. If resources become limited or if we fail to identify suitable target peptides, naturally occurring TCRs or affinity-enhanced TCRs, our ability to submit INDs for further SPEAR T-cells may be delayed or never realized, which would have a materially adverse effect on our business.

Table of Contents

***We may encounter substantial delays in our clinical trials or may not be able to conduct our trials on the timelines we expect.***

Conduct of clinical trials is dependent on finding clinical sites prepared to carry out the relevant clinical trials, recruitment of patients both in terms of number and type of patients and general performance of the relevant clinical site. It is difficult to predict how quickly we will be able to recruit suitable patients, find suitable sites, begin clinical programs and administer our SPEAR T-cells. The patient population in which any required peptide antigen is presented may be lower than expected which will increase the timescales required to find and recruit patients into the applicable clinical trial.

Our clinical trials will compete with other clinical trials for SPEAR T-cells that are in the same therapeutic areas as our SPEAR T-cells, which will reduce the number and types of patients available to us, because some patients who might have opted to enroll in our trials may instead opt to enroll in a trial being conducted by one of our competitors. Because the number of qualified clinical investigators is limited, we currently, and expect to continue to, conduct some of our clinical trials at the same clinical trial sites that some of our competitors use, which will reduce the number of patients who are available for our clinical trials at such clinical trial sites. Moreover, because our SPEAR T-cells represent a departure from more commonly used methods for cancer treatment, potential patients and their physicians may opt to use conventional therapies, such as chemotherapy and hematopoietic cell transplantation, rather than enrollment in any of our current or future clinical trials. In addition in relation to any indication the standard of care for patients with than indication may change or further develop meaning that clinical sites are no longer prepared to continue with any clinical trial or require amendments to agreed protocols for clinical trials. Such circumstances can lead to the suspension of the relevant clinical trial at a site, inability to recruit further patients at that clinical site or a requirement to amend the protocol, all of which will delay or potentially halt progression of a SPEAR T-cell through clinical trials.

Even if we are able to enroll a sufficient number of patients in our clinical trials, delays in patient enrollment may result in increased costs or may affect the timing or outcome of the planned clinical trials, which could prevent completion of these trials and adversely affect our ability to advance the development of our SPEAR T-cells.

***We may not be able to develop or obtain approval for the analytical assays and companion diagnostics required for commercialization of our SPEAR T-cells.***

Administration of our SPEAR T-cells requires the use of an immuno-chemistry screening assay in which patients are screened for the presence of the cancer peptide targeted by our SPEAR T-cells. This assay requires the identification of suitable antibodies which can be used to identify the presence of the relevant target cancer peptide.

If safe and effective use of a biologic product depends on an *in vitro* diagnostic, such as a test to detect patients with HLA type A2, then the FDA generally requires approval or clearance of the diagnostic, known as a companion diagnostic, concurrently with approval of the therapeutic product. To date, the FDA has generally required *in vitro* companion diagnostics intended to select the patients who will respond to cancer treatment to obtain a pre-market approval, or PMA, which can take up to several years, for that diagnostic simultaneously with approval of the biologic product.

We expect that, for our NY-ESO SPEAR T-cell, the FDA and similar regulatory authorities outside of the United States will require the development and regulatory approval of a companion diagnostic assay as a condition to approval. We also expect that the FDA may require

PMA supplemental approvals for use of that same companion diagnostic as a condition of approval of additional SPEAR T-cells. We do not have experience or capabilities in developing or commercializing these companion diagnostics and plan to rely in large part on third parties to perform these functions.

If we, or any third parties that we engage to assist us, are unable to successfully develop companion diagnostic assays for use with our SPEAR T-cells, or are unable to obtain regulatory approval or experience delays in either development or obtaining regulatory approval, we may be unable to identify patients with the specific profile targeted by our SPEAR T-cells for enrollment in our clinical trials. Accordingly, further investment may be required to further develop or obtain the required regulatory approval for the relevant companion diagnostic assay, which would delay or substantially impact our ability to conduct further clinical trials or obtain regulatory approval.

***Manufacturing and administering our SPEAR T-cells is complex and we may encounter difficulties in production, particularly with respect to process development or scaling up of our manufacturing capabilities. If we encounter such difficulties, our ability to provide supply of our SPEAR T-cells for clinical trials or for commercial purposes could be delayed or stopped.***

The process of manufacturing and administering our SPEAR T-cells is complex and highly regulated. The manufacture of our SPEAR T-cells involves complex processes, including manufacture of a lentiviral delivery vector containing the gene for our affinity-enhanced engineered TCR. Administration of our SPEAR T-cells includes harvesting white blood cells from the patient, isolating certain T cells from the white blood cells, combining patient T cells with our lentiviral delivery vector through a process known as transduction, expanding the transduced T cells to obtain the desired dose, and ultimately infusing the modified T cells back into the patient s body. As a result of the complexities, our manufacturing and supply costs are likely to be higher than those at more traditional manufacturing processes and the manufacturing process is less reliable and more difficult to reproduce. Our manufacturing

Table of Contents

process is and will be susceptible to product loss or failure due to logistical issues, including manufacturing issues associated with the differences in patients white blood cells, interruptions in the manufacturing process, contamination, equipment or reagent failure, supplier error and variability in SPEAR T-cell and patient characteristics. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects, and other supply disruptions.

If for any reason we (or any other manufacturer of our therapy) lose a patient s white blood cells or such material gets contaminated or later processing steps fail at any point, the manufacturing process of the SPEAR T-cell for that patient will need to be completely restarted and the resulting delay may adversely affect that patient s outcome. If microbial, viral or other contaminations are discovered in our SPEAR T-cells or in the manufacturing facilities in which our SPEAR T-cells are made or administered, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination.

As our SPEAR T-cells progress through preclinical programs and clinical trials towards approval and commercialization, it is expected that various aspects of the manufacturing and administration process will be altered in an effort to optimize processes and results. We have already identified some improvements to our manufacturing and administration processes, but these changes may not achieve the intended objectives, and could cause our SPEAR T-cells to perform differently and affect the results of planned clinical trials or other future clinical trials. In addition, such changes may require amendments to be made to regulatory applications which may further delay the timeframes under which modified manufacturing processes can be used for any SPEAR T-cell. For example, we are planning to make changes to the manufacturing process for cell products and vector material used in our NY-ESO SPEAR T-cell for which we are likely to need to conduct small clinical trials to gather safety data for each of the different indications for which larger clinical trials are planned. If our NY-ESO SPEAR T-cell manufactured under the new process has a worse safety or efficacy profile than the prior investigational product, we may need to re-evaluate the use of that manufacturing process, which could significantly delay or even terminate the progress of our clinical trials.

Developing a commercially viable process is a difficult and uncertain task, and there are risks associated with scaling to the level required for advanced clinical trials or commercialization, including, among others, increased costs, potential problems with process scale-out, process reproducibility, stability issues, lot consistency, and timely availability of reagents or raw materials. We may ultimately be unable to reduce the expenses associated with our SPEAR T-cells to levels that will allow us to achieve a profitable return on investment.

We are in the process of developing and transferring new processes to facilitate such manufacture into third-party contract suppliers. Any delay in the development and transfer of these new processes to the third-party contract supplier or inability of the third-party contract supplier to replicate the transferred process at the appropriate level and quality will result in delays in our ability to progress clinical programs, further develop our SPEAR T-cells and obtain marketing approval for our SPEAR T-cells. Such process scale-up and transfer will also require a demonstration of comparability between the product used in clinical trials and the potential commercial product manufactured by the new process at the new facility. If we are unable to demonstrate that our commercial scale product is comparable to the product used in clinical trials or the regulatory authority requires additional comparability testing to be carried out, we may not receive regulatory approval for that product without additional clinical trials. We cannot guarantee that we will be able to make the required modifications or perform the required comparability testing within currently anticipated timeframes or that such modifications or comparability testing, when made, will obtain regulatory approval or that the new processes or modified processes will successfully be transferred to the third party contract suppliers within currently anticipated timeframes. Any delay or failure in obtaining approval will impact our ability to commercialize and obtain marketing approval for our SPEAR T-cells. Such failure may also impact our collaboration with GSK and result in GSK not exercising options or not developing any of our additional SPEAR T-cells. Even if we are successful, our manufacturing capabilities could be affected by increased costs, unexpected delays, equipment failures, labor shortages, natural disasters, power failures and numerous other factors that could prevent us from realizing the intended benefits of our manufacturing strategy, which in turn could have a material adverse effect on our business. We have insurance to cover certain business interruption events, particularly research and development expenditure (capped at £10 million) and committed costs (capped at £250,000). However, because our level of insurance is capped, it may be insufficient to fully compensate us if any of these events were to occur in the future.

***Our manufacturing process needs to comply with FDA regulations and foreign regulations relating to the quality and reliability of such processes. Any failure to comply with relevant regulations could result in delays in or termination of our clinical programs and suspension or withdrawal of any regulatory approvals.***

In order to commercially produce our products, we will need to comply with the FDA s cGMP regulations and guidelines. We may encounter difficulties in achieving quality control and quality assurance and may experience shortages in qualified personnel. We and our third party contract manufacturers are subject to inspections by the FDA and comparable agencies in other jurisdictions to confirm compliance with applicable regulatory requirements. Any failure to follow cGMP or other regulatory requirements or delay, interruption or other issues that arise in the manufacture, fill- finish, packaging, or storage of our SPEAR T-cells as a result of a failure of our facilities or the facilities or operations of third parties to comply with regulatory requirements or pass any regulatory authority inspection could significantly impair our ability to develop and commercialize our SPEAR T-cells, including leading to significant delays in the availability of our SPEAR T-cells for our clinical trials or the termination of or suspension of a clinical trial, or the delay or prevention of a filing or approval of marketing applications for our SPEAR T-cells. Significant non-compliance could also result in

Table of Contents

the imposition of sanctions, including warning or untitled letters, fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approvals for our SPEAR T-cells, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of products, operating restrictions and criminal prosecutions, any of which could damage our reputation and our business.

***The outcome of clinical trials is uncertain and our clinical trials may fail to demonstrate adequately the safety and efficacy of any of our SPEAR T-cells which would prevent or delay regulatory approval and commercialization.***

There is a risk in any clinical trial (whether sponsored by us or investigator-initiated) that side effects from our SPEAR T-cells will require a hold on, or termination of, our clinical programs or further adjustments to our clinical programs in order to progress our SPEAR T-cell. Our SPEAR T-cells are novel and unproven and regulators will therefore require evidence that the SPEAR T-cells are safe before permitting clinical trials to commence and evidence that the SPEAR T-cells are safe and effective before granting any regulatory approval. In particular, because our SPEAR T-cells are subject to regulation as biological products, we will need to demonstrate that they are safe, pure and potent for use in each target indication. The SPEAR T-cell must demonstrate an acceptable risk versus benefit profile in its intended patient population and for its intended use. The risk/benefit profile required for product licensure will vary depending on these factors and may include not only the ability to show tumor shrinkage, but also adequate duration of response, a delay in the progression of the disease and/or an improvement in survival. For example, response rates from the use of our SPEAR T-cells will not be sufficient to obtain regulatory approval unless we can also show an adequate duration of response.

Clinical testing is expensive and can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. Success in preclinical programs and early clinical trials does not ensure that later clinical trials will be successful. Moreover, the results of preclinical programs and early clinical trials of our SPEAR T-cells may not be predictive of the results of later-stage clinical trials. To date, we have only obtained interim results from Phase 1/2 clinical trials that are uncontrolled, involve small sample sizes and are of shorter duration than would be required for regulatory approval. There may be other reasons why our early clinical trials are not predictive of later clinical trials. In addition, the results of trials in one set of patients or line of treatment may not be predictive of those obtained in another and protocols may need to be revised based on unexpected early results. For example, in our ovarian cancer trial with our NY-ESO SPEAR T-cell, the first patient treated experienced a grade 3 Cytokine-Release Syndrome at day seven post-infusion, concomitant with a significant proliferation of the engineered T cells that constituted about 100% of the peripheral blood at day 14. This level of Cytokine-Release Syndrome had not been seen in previous results from trials using our NY-ESO SPEAR T-cell. The patient s tumor markers were also falling during this time. To manage the Cytokine-Release Syndrome, the patient was treated with high dose steroids that abrogated the engineered T-cell function. The protocol was then modified to allow for use of the anti-IL6R antibody, tocilizumab, for treatment of Cytokine-Release Syndrome in future patients, which has been shown to control Cytokine-Release Syndrome without abrogating the anti-tumor response. As another example, in the European investigator-initiated clinical program in gastro-esophageal cancer there has been one patient death. The underlying cause of death is under investigation.

We expect there may be greater variability in results for our SPEAR T-cells which are administered on a patient-by-patient basis than for off-the-shelf products, like many other biologics. There is typically an extremely high rate of attrition from the failure of SPEAR T-cells proceeding through clinical trials. SPEAR T-cells in later stages of clinical trials may fail to show the desired safety and efficacy profile despite having progressed through preclinical programs and initial clinical trials. A number of companies in the biopharmaceutical industry have suffered significant setbacks in advanced clinical trials due to lack of efficacy or unacceptable safety issues, notwithstanding promising results in earlier trials. Most biologic candidates that begin clinical trials are never approved by regulatory authorities for commercialization. We cannot therefore guarantee that we will be successful in obtaining the required efficacy and safety profile from the performance of any of our clinical programs.

In addition, even if such trials are successfully completed, we cannot guarantee that the FDA or foreign regulatory authorities will interpret the results as we do. Accordingly, more trials may be required before we can submit our SPEAR T-cell for regulatory approval. To the extent that the results of the trials are not satisfactory to the FDA or foreign regulatory authorities for support of a marketing application, we may be required to expend significant resources, which may not be available to us, to conduct additional trials in support of potential approval of our SPEAR T-cells. We cannot predict whether any of our SPEAR T-cells will satisfy regulatory requirements at all or for indications in which such SPEAR T-cells are currently being evaluated as part of any clinical programs.

***We have limited experience conducting clinical trials which may cause a delay in any clinical program and in the obtaining of regulatory approvals.***

Although we have recruited a team that has significant experience with clinical trials, as a company we have limited experience in conducting clinical trials and no experience in conducting clinical trials through to regulatory approval of any SPEAR T-cell. In part because of this lack of experience, we cannot be certain that planned clinical trials will begin or be completed on time, if at all. Large-scale trials would require significant additional financial and management resources, and reliance on third-party clinical investigators, contract research organizations, or CROs, or consultants. Relying on third-party clinical investigators, consultants or CROs may force us to encounter delays that are outside of our control. Our NY-ESO SPEAR T-cell is being used in investigator-

Table of Contents

initiated clinical programs in gastro esophageal cancer patients. We are not sponsoring these clinical programs and have limited control over clinical decisions taken in such clinical programs including the methodology of patient treatment, timescales of treatment or when additional sites may be initiated and start enrolling patients.

***Our SPEAR T-cells may have undesirable side effects or have other properties that could halt their clinical development, prevent their regulatory approval, limit their commercial potential or otherwise result in significant negative consequences.***

Where any SPEAR T-cell has undesirable side effects, regulatory approval for such therapeutic may be delayed or suspended, or alternatively may be restricted to particular disease indications or states that are more limited than desirable. This could result in the failure of our products reaching the market or a reduction in the patient population for which any SPEAR T-cell can be used.

Shares of our stock held in the trust will be issued and outstanding shares. The prohibited owner will not benefit economically from ownership of any shares of our stock held in the trust and will have no rights to distributions and no rights to vote or other rights attributable to the shares of our stock held in the trust. The trustee of the trust will exercise all voting rights and receive all distributions with

Table of Contents

respect to shares held in the trust for the exclusive benefit of the charitable beneficiary of the trust. Any distribution made before we discover that the shares have been transferred to a trust as described above must be repaid by the recipient to the trustee upon demand by us. Subject to Maryland law, effective as of the date that the shares have been transferred to the trust, the trustee will have the authority to rescind as void any vote cast by a prohibited owner before our discovery that the shares have been transferred to the trust and to recast the vote in accordance with the desires of the trustee acting for the benefit of the charitable beneficiary of the trust. However, if we have already taken irreversible corporate action, then the trustee may not rescind and recast the vote.

Shares of our stock transferred to the trustee are deemed offered for sale to us, or our designee, at a price per share equal to the lesser of (i) the price paid by the prohibited owner for the shares (or, in the case of a devise or gift, the market price at the time of such devise or gift) and (ii) the market price on the date we accept, or our designee, accepts such offer. We may reduce the amount so payable to the trustee by the amount of any distribution that we made to the prohibited owner before we discovered that the shares had been automatically transferred to the trust and that are then owed by the prohibited owner to the trustee as described above, and we may pay the amount of any such reduction to the trustee for distribution to the charitable beneficiary. We have the right to accept such offer until the trustee has sold the shares of our stock held in the trust as discussed below. Upon a sale to us, the interest of the charitable beneficiary in the shares sold terminates, and the trustee must distribute the net proceeds of the sale to the prohibited owner and must distribute any distributions held by the trustee with respect to such shares to the charitable beneficiary.

If we do not buy the shares, the trustee must, within 20 days of receiving notice from us of the transfer of shares to the trust, sell the shares to a person or entity designated by the trustee who could own the shares without violating the ownership limits or the other restrictions on ownership and transfer of our stock. After the sale of the shares, the interest of the charitable beneficiary in the shares transferred to the trust will terminate and the trustee must distribute to the prohibited owner an amount equal to the lesser of (i) the price paid by the prohibited owner for the shares (or, if the prohibited owner did not give value for the shares in connection with the event causing the shares to be held in the trust (for example, in the case of a gift, devise or other such transaction), the market price of the shares on the day of the event causing the shares to be held in the trust) and (ii) the sales proceeds (net of any commissions and other expenses of sale) received by the trust for the shares. The trustee may reduce the amount payable to the prohibited owner by the amount of any distribution that we paid to the prohibited owner before we discovered that the shares had been automatically transferred to the trust and that are then owed by the prohibited owner to the trustee as described above. Any net sales proceeds in excess of the amount payable to the prohibited owner must be paid immediately to the charitable beneficiary, together with any distributions thereon. In addition, if, prior to the discovery by us that shares of stock have been transferred to a trust, such shares of stock are sold by a prohibited owner, then such shares will be deemed to have been sold on behalf of the trust and, to the extent that the prohibited owner received an amount for or in respect of such shares that exceeds the amount that such prohibited owner was entitled to receive, such excess amount will be paid to the trustee upon demand. The prohibited owner has no rights in the shares held by the trustee.

In addition, if our board of directors determines in good faith that a transfer or other event has occurred that would violate the restrictions on ownership and transfer of our stock described above, our board of directors may take such action as it deems advisable to refuse to give effect to or to prevent such transfer, including, but not limited to, causing us to redeem shares of our stock, refusing to give effect to the transfer on our books or instituting proceedings to enjoin the transfer.

Every owner of 5% or more (or such lower percentage as required by the Code or the regulations promulgated thereunder) of our stock, within 30 days after the end of each taxable year, must give us written notice stating the stockholder's name and address, the number of shares of each class and series of our stock that the stockholder beneficially owns and a description of the manner in which the shares

Table of Contents

are held. Each such owner must provide to us in writing such additional information as we may request in order to determine the effect, if any, of the stockholder's beneficial ownership on our status as a REIT and to ensure compliance with the ownership limits. In addition, any person or entity that is a beneficial owner or constructive owner of shares of our stock and any person or entity (including the stockholder of record) who is holding shares of our stock for a beneficial owner or constructive owner must, on request, provide to us such information as we may request in good faith in order to determine our status as a REIT and to comply with the requirements of any taxing authority or governmental authority or to determine such compliance and to ensure compliance with the ownership limits.

Any certificates representing shares of our stock will bear a legend referring to the restrictions on ownership and transfer of our stock described above.

These restrictions on ownership and transfer of our stock will not apply if our board of directors determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT or that compliance is no longer required.

The restrictions on ownership and transfer of our stock described above could delay, defer or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interests of our stockholders.

**Transfer Agent and Registrar**

The transfer agent and registrar for our common stock is Computershare Trust Company N.A.

**Listing**

Our common stock is listed on the NASDAQ Global Select Market under the symbol "CONE."

Table of Contents

## DESCRIPTION OF THE PARTNERSHIP AGREEMENT OF CYRUSONE LP

*We have summarized the material terms and provisions of the Amended and Restated Agreement of Limited Partnership of CyrusOne LP, which we refer to as the "partnership agreement." This summary is not complete. For more detail, you should refer to the partnership agreement itself, a copy of which has been filed with the SEC and is incorporated by reference as an exhibit to the registration statement of which this prospectus is a part. For purposes of this section, references to "we," "our," "us" and "our company" refer to CyrusOne Inc.*

**Management of Our Operating Partnership**

Our operating partnership, CyrusOne LP, is a Maryland limited partnership that was formed on July 31, 2012. CyrusOne GP, our wholly-owned subsidiary, is the sole general partner of our operating partnership, and we intend to conduct substantially all of our business in or through our operating partnership. In connection with our IPO, we entered into the amended and restated agreement of limited partnership, as special limited partner, with CBI and the other limited partners named therein.

As the sole trustee of the sole general partner of our operating partnership, we exercise exclusive and complete responsibility and discretion in its day-to-day management and control. We can cause our operating partnership to enter into major transactions, including acquisitions, dispositions and refinancings, subject to certain limited exceptions. The limited partners of our operating partnership may not transact business for, or participate in the management activities or decisions of, our operating partnership, except as provided in the partnership agreement and as required by applicable law. The general partner of our operating partnership may not be removed as general partner by the limited partners. The partnership agreement restricts our ability to engage in certain business combinations as more fully described below.

The limited partners of our operating partnership expressly agree that the general partner of our operating partnership is acting for the benefit of our 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 limited partners of our operating partnership, on the other, the partnership agreement provides that any action or failure to act by the general partner that gives priority to the separate interests of our stockholders or us 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.

The partnership agreement provides that all of our business activities, including all activities pertaining to the acquisition and operation of properties, must generally be conducted through our operating partnership. The partnership agreement does permit us, under certain circumstances, to hold certain assets other than through our operating partnership. However, we must make commercially reasonable efforts to insure that the economic benefits and burdens of such assets are vested in our operating partnership.

**Transferability of Interests**

The general partner may not voluntarily withdraw from our operating partnership or transfer or assign all or any portion of its interest in our operating partnership (other than a transfer to us or one of our wholly-owned subsidiaries or in connection with a permitted Termination Transaction (as defined below)) without the consent of the partners (including us, the general partner and entities controlled by us or the general partner) holding a majority of our operating partnership units then held by partners (including us, the general partner and entities controlled by us or the general partner) entitled to vote on or consent to such matter, and, for so long as CBI and entities controlled by CBI hold more

Table of Contents

than 20% of the outstanding operating partnership units, the consent of CBI. A limited partner may not sell, assign, encumber or otherwise dispose of its operating partnership units in our operating partnership without the general partner's consent during the 12-month period following such limited partner's acquisition of such operating partnership units, other than to family members or trusts for their exclusive benefit, to a charity or trust for the benefit of a charity, to entities that are controlled by the limited partner, its family members or affiliates, or to a lending institution that is not an affiliate of the limited partner as collateral for a bona fide loan, subject to certain limitations. After the 12-month period following such limited partner's acquisition of operating partnership units, any transfer of such operating partnership units by the limited partner, except to the parties specified above, will be subject to a right of first refusal by us. All transfers must be made only to "accredited investors" as defined under Rule 501 of the Securities Act and are subject to other limitations and conditions set forth in the partnership agreement.

Limited partners, including CBI and its controlled entities, may pledge their interests in our operating partnership to one or more banks or lending institutions (which are not affiliates of the pledging limited partner). The transfer of such operating partnership units pursuant to the lender's or financial institution's enforcement of its remedies under the applicable financing documents is permitted by the partnership agreement.

**Board of Directors**

Our bylaws require that nominees for election as a director, whether by the stockholders or by the board of directors, shall include such number of individuals as are entitled to be nominated pursuant to the partnership agreement. Our operating partnership agreement provides that, for so long as the number of shares of our common stock held by CBI and entities controlled by CBI is equal to or greater than 50% of the total number of 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), CBI will have 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, but not less than one director, provided that at least one CBI nominee must meet the independence requirements under the rules, regulations and listing qualifications of the NASDAQ Global Select Market. With our board of directors having eight members, this would enable CBI to nominate three directors, although the election of each such nominee will be subject to the vote of our stockholders. Such rights to nominate directors would also decrease as follows:

- if CBI owned less than 50% but at least 10% 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), then CBI would be entitled to nominate 20% of the number of directors established in accordance with our charter and bylaws (rounded down, if necessary, to the nearest whole number), but not less than one director;

- if CBI owned less than 10% 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), then CBI would no longer be entitled to nominate any directors (except in accordance with provisions in our bylaws applicable to all stockholders).

As long as CBI has the right to nominate at least one director, CBI will have the right to require that at least one of its nominees then serving as a director to be appointed to each committee of our board of directors (provided that such nominee is qualified as independent under the rules, regulations and listing qualifications of the NASDAQ Global Select Market for service on any applicable

Table of Contents

committee) other than any committee whose purpose is to evaluate or negotiate any transaction with CBI.

In addition, if a vacancy on the board of directors arises as a result of the death, disability, retirement, resignation or removal (with or without cause) of a CBI nominee and such vacancy results in the number of CBI nominees then on the board being less than the number that CBI is then entitled to nominate to the board of directors, it will be a qualification of a director that fills such vacancy that he or she was approved by a majority vote of the nominees of CBI then serving as directors.

Our board of directors currently consists of eight directors. Our charter and bylaws provide that the number of directors constituting our board of directors may be increased or decreased by a majority vote of our board of directors, provided that the number of directors may not be decreased to fewer than the minimum number required under the MGCL. In the event that any increase in the size of our board of directors results in CBI being entitled to designate an additional individual to the board of directors, it will be a qualification of a director that fills the resulting vacancy that he or she is a nominee of CBI. Effective upon our annual meeting of stockholders scheduled for May 1, 2014, the size of our board is expected to increase to nine members. See our Definitive Proxy on Schedule 14A filed with the SEC on March 19, 2014 for more information.

**Amendments to the Partnership Agreement**

Amendments to the partnership agreement may be proposed by the general partner or limited partners holding a majority of our operating partnership units then held by limited partners. The general partner must approve all amendments to the partnership agreement.

Generally, the partnership agreement may not be amended, modified or terminated without the approval of both the general partner and the partners holding a majority of our operating partnership units then held by all partners (including us, the general partner and entities controlled by us or the general partner) entitled to vote on, or consent to such matter. The general partner has the power to unilaterally make certain amendments to the partnership agreement without obtaining the consent of any other partners as may be required to:

- add to its obligations as general partner or surrender any right or power granted to it as general partner for the benefit of the limited partners;
- reflect the admission, substitution or withdrawal of partners or termination of our operating partnership in accordance with the terms of the partnership agreement;
- reflect a change of an inconsequential nature or that does not adversely affect the limited partners in any material respect, or cure any ambiguity, correct or supplement any provisions of the partnership agreement not inconsistent with law or with other provisions of the partnership agreement, or make other changes concerning matters under the partnership agreement that will not otherwise be inconsistent with law or the partnership agreement;
- satisfy any requirements, conditions or guidelines of federal or state law;
- reflect changes that are reasonably necessary for us to maintain our status as a REIT or to satisfy REIT requirements;
- reflect the issuance of additional operating partnership units;
- make certain modifications to the manner in which capital accounts are adjusted, computed or maintained, or net income or net loss are allocated;
- set forth or amend the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications or terms or conditions of redemption of

Table of Contents

any additional class or series of partnership interest permitted to be issued under the partnership agreement;

modify, if our operating partnership is the surviving partnership in any Termination Transaction, certain provisions of the partnership agreement to provide the holders of interests in such surviving partnership rights that are consistent with the partnership agreement; or

reflect any other modification as is reasonably necessary for the business or operations of our operating partnership or us, which does not violate the restrictions on the general partner described below.

Subject to certain exceptions, amendments that would, among other things, convert a limited partner into a general partner (except in connection with a permitted transfer of the general partner's interest), modify the limited liability of a limited partner, adversely alter a partner's right to receive any distributions or allocations of profits or losses, adversely alter or modify the redemption rights of limited partners and qualifying assignees (except as permitted in connection with a permitted Termination Transaction), amend the rights of CBI described above under " Board of Directors" or amend these restrictions must be approved by each limited partner that would be adversely affected by such amendment; provided, however, that the consent of any individual partner adversely affected shall not be required for any amendment or action that affects all partners holding the same class or series of our operating partnership units on a uniform or pro rata basis, if approved by a majority of the partners of such class or series.

These nomination and other special rights of CBI automatically terminate at such time as CBI, together with entities it controls, cease to own operating partnership units that represent at least 10% of the outstanding operating partnership units. Until such termination, no amendment to CBI's nomination rights may be made without the prior written consent of CBI.

**Restrictions on General Partner's Authority**

The general partner may not take any action in contravention of an express prohibition or limitation contained in the partnership agreement, including:

any action that would make it impossible to carry on the ordinary business of our operating partnership, except as otherwise provided in the partnership agreement;

admitting any person as a partner, except as otherwise provided in the partnership agreement;

perform any act that would subject a limited partner to liability not contemplated in the partnership agreement or under the Maryland Revised Uniform Limited Partnership Act (the "Partnership Act"); or

enter into any contract, mortgage loan or other agreement that expressly prohibits or restricts us or our operating partnership from performing our or its specific obligations in connection with a redemption of operating partnership units as described below or expressly prohibits or restricts the ability of a limited partner to exercise its redemption rights in full without the written consent of such limited partner.

In addition, without the consent of partners (including us, the general partner and entities controlled by us or the general partner) holding a majority of our operating partnership units then held by the partners (including us, the general partner and entities controlled by us or the general partner), entitled to vote on or consent to such matter, the general partner may not do any of the following:

amend, modify or terminate the partnership agreement, except as explicitly permitted therein;

Table of Contents

transfer any portion of its partnership interest or admit into the partnership any additional or successor general partner (other than to us or one of our wholly-owned subsidiaries or in connection with a permitted Termination Transaction);

voluntarily withdraw as general partner except in connection with a permitted transfer of its entire interest to an entity that will become the new general partner or in connection with a permitted Termination Transaction;

make a general assignment for the benefit of creditors, appoint or acquiesce in the appointment of a custodian, receiver or trustee for all or any part of the assets of our operating partnership;

institute any proceeding for bankruptcy by our operating partnership;

undertake a merger or consolidation of our operating partnership with or into another person, or a conversion of our operating partnership into another entity, other than in connection with a termination transaction effected in accordance with the partnership agreement; or

effect a sale, lease, exchange or other transfer of all or substantially all of the assets of our operating partnership in a single transaction or a series of related transactions outside the ordinary course of our operating partnership's business, other than in connection with a termination transaction;

provided, however, that except with respect to the fourth and fifth bullet points, for so long as CBI and entities controlled by CBI own at least 20% of the outstanding operating partnership units held by all partners, the consent of CBI shall also be required.

**Distributions to Holders of Operating Partnership Units**

The partnership agreement provides that holders of operating partnership units are generally entitled to receive distributions on a pro rata basis in accordance with their respective operating partnership units (subject to the rights of the holders of any class of preferred partnership interests that may be authorized and issued in the future).

**Redemption/Exchange Rights**

A limited partner or an assignee has the right, commencing on or after the date which is 12 months after its acquisition of operating partnership units, to require our operating partnership to redeem part or all of such operating partnership units for cash based upon the fair market value of an equivalent number of shares of our common stock at the time of the redemption, determined in accordance with and subject to adjustment as provided in the partnership agreement. Alternatively, we may elect to undertake an Exchange, pursuant to which we acquire those operating partnership units in exchange for shares of our common stock. Our acquisition in connection with an Exchange will be on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, distributions of warrants or stock rights, specified extraordinary distributions and similar events. A limited partner or assignee may not require us to redeem such limited partner's or assignee's operating partnership units if our election to acquire such operating partnership units in exchange for shares of our common stock would cause any person to violate the ownership limits or the other restrictions on ownership and transfer of our common stock, after giving effect to any waivers or modifications of such limits granted by our board of directors. With each redemption or Exchange, we increase our percentage ownership interest in our operating partnership.

In addition, if our election to acquire operating partnership units tendered for redemption in exchange for shares of our common stock in an Exchange would cause any person to violate the restrictions on ownership and transfer of our stock and such excess operating partnership units (and any other operating partnership units that the tendering limited partner agrees to treat as such) have a

Table of Contents

value of at least $50,000,000 (based on an operating partnership unit having a value equal to the trailing ten-day daily trading price of our common stock) and we are eligible to file a registration statement on Form S-3 under the Securities Act, then we may also elect to undertake a Redemption, pursuant to which we redeem our operating partnership units with the proceeds from a public offering or private placement of our common stock. In the event we elect to undertake a Redemption, we may require the other limited partners to also elect whether or not to participate. Participating limited partners will receive on the redemption date for each operating partnership unit (subject to adjustment) the net proceeds per share received in the public offering but will have a limited opportunity to withdraw their operating partnership units from the redemption immediately prior to the pricing of the public offering.

**Issuance of Units, Stock or Other Securities**

The general partner of our operating partnership has the power to cause our operating partnership to issue additional units of limited partnership interest in one or more classes or series. These additional units of limited partnership interest may include preferred partnership units. Generally, we may issue additional shares of our stock, or rights, options, warrants or convertible or exchangeable securities having the right to subscribe for or purchase shares of our stock, only if we cause our operating partnership to issue to us partnership interests or rights, options, warrants or convertible or exchangeable securities of our operating partnership having economic rights that are substantially similar to the securities that we have issued.

**Capital Contributions**

The partnership agreement provides that the general partner may authorize the issuance of additional partnership interests in exchange for such capital contributions, if any, as the general partner may approve. Under the partnership agreement, we are generally obligated to contribute the net proceeds we receive from any offering of our shares of stock as additional capital to our operating partnership in exchange for additional operating partnership units.

The partnership agreement provides that we may make additional capital contributions, including contributions of properties, to our operating partnership in exchange for additional operating partnership units. If we contribute additional capital and receive additional operating partnership units in exchange for the capital contribution, our percentage interest in our operating partnership will be increased on a proportionate basis based on the amount of the additional capital contributions and the value of our operating partnership at the time of the contributions. In addition, if we contribute additional capital and receive additional operating partnership units for the capital contribution, the capital accounts of the partners may be adjusted upward or downward to reflect any unrealized gain or loss attributable to the properties as if there were an actual sale of the properties at the fair market value thereof. No person has any preemptive, preferential or other similar right with respect to making additional capital contributions or loans to our operating partnership or the issuance or sale of any operating partnership units or other partnership interests.

Our operating partnership could issue preferred partnership interests in connection with acquisitions of property or otherwise. Any such preferred partnership interests would have priority over common partnership interests with respect to distributions from our operating partnership, including the partnership interests that we own.

**Borrowing by the Operating Partnership**

The general partner may cause our operating partnership to borrow money and to issue and guarantee debt as the general partner deems necessary for the conduct of the activities of our operating partnership. Such debt may be secured, among other things, by mortgages, deeds of trust, liens or encumbrances on the properties of our operating partnership.

Table of Contents

**Tax Matters**

The general partner is the tax matters partner of our operating partnership and, as the sole trustee of the general partner, we have the authority under the Code to handle tax audits on behalf of our operating partnership. In addition, as the sole trustee of the general partner, we have the authority to arrange for the preparation and filing of our operating partnership's tax returns and to make tax elections under the Code on behalf of our operating partnership.

**Allocations of Net Income and Net Losses to Partners**

The net income or net loss of our operating partnership is generally allocated to the general partner and the limited partners of our operating partnership in accordance with their respective ownership of operating partnership units. However, in some cases, gains or losses may be disproportionately allocated to partners who have contributed property to or guaranteed debt of our operating partnership. The allocations described above are subject to special allocations relating to depreciation deductions and to compliance with the provisions of Sections 704(b) and 704(c) of the Code and the associated Treasury regulations. See "U.S. Federal Income Tax Considerations  Tax Aspects of Our Operating Partnership and any Subsidiary Partnerships."

**Operations**

We intend to cause the general partner of our operating partnership to manage our operating partnership in a manner that will enable us to maintain our qualification as a REIT and to minimize any U.S. federal income tax liability.

The partnership agreement provides that our operating partnership will assume and pay when due, or reimburse us for payment of, all costs and expenses relating to the operations of, or for the benefit of, our operating partnership.

**Change of Control and Termination Transactions**

Pursuant to the partnership agreement of our operating partnership, neither we nor the general partner may engage in, or cause or permit, a Termination Transaction, other than with the consent of limited partners (other than us, the general partner and entities controlled by us or the general partner) holding a majority of all the outstanding operating partnership units held by all partners (other than us, the general partner and entities controlled by us or the general partner) entitled to vote on or consent to such matter, or if the requirements discussed below are satisfied. A "Termination Transaction" means any direct or indirect transfer of all or any portion of our limited partnership interest in our operating partnership or any direct or indirect transfer of our interest in the general partner in connection with, or any other occurrence of:

a merger, consolidation or other combination transaction involving us or the general partner;

a sale, lease, exchange or other transfer of all or substantially all of our assets not in the ordinary course of its business, whether in a single transaction or a series of related transactions;

a reclassification, recapitalization or change of our outstanding shares of common stock (other than a change in par value, or from par value to no par value, or as a result of a stock split, stock dividend or similar subdivision);

the adoption of any plan of liquidation or dissolution of us or the general partner; or

any other direct or indirect transfer of all or any portion of our limited partnership interest in our operating partnership or any direct or indirect transfer of our interest in the general partner, other than certain permitted transfers to affiliated entities.

Table of Contents

The consent of the limited partners to a Termination Transaction is not required if either:

(i) in connection with the Termination Transaction, each operating partnership unit is entitled to receive the "transaction consideration," defined as the fair market value, at the time of the Termination Transaction, of an amount of cash, securities or other property equal to the product of:

the number of shares of our common stock into which each operating partnership unit is then exchangeable; and

the greatest amount of cash, securities or other property paid to the holder of one share of our common stock in consideration of such share in connection with the Termination Transaction;

provided that, if, in connection with the Termination Transaction, a purchase, tender or exchange offer is made to and accepted by the holders of a majority of the outstanding shares of our common stock, the transaction consideration will refer to the fair market value of the greatest amount of cash, securities or other property which such holder would have received had it exercised its redemption right and received shares of our common stock in exchange for its operating partnership units immediately prior to the expiration of such purchase, tender or exchange offer and had accepted such purchase, tender or exchange offer; or

(ii) all of the following conditions are met: (i) substantially all of the assets directly or indirectly owned by our operating partnership prior to the announcement of the Termination Transaction are, immediately after the Termination Transaction, owned directly or indirectly by our operating partnership or another limited partnership or limited liability company which is the survivor of a merger, consolidation or combination of assets with our operating partnership, which we refer to as the "surviving partnership," (ii) the surviving partnership is classified as a partnership for U.S. federal income tax purposes; (iii) the limited partners (other than us) that held operating partnership units immediately prior to the consummation of such Termination Transaction own a percentage interest of the surviving partnership based on the relative fair market value of the net assets of our operating partnership and the other net assets of the surviving partnership immediately prior to the consummation of such transaction; (iv) the rights of such limited partners with respect to the surviving partnership are at least as favorable as those of limited partners prior to the consummation of such transaction and as those applicable to any other limited partners or non-managing members of the surviving partnership; and (v) such rights include:

(a) if we or our successor is a REIT with a single class of publicly traded common equity securities, the right to redeem their interests in the surviving partnership at any time for either: (1) a number of such REIT's publicly traded common equity securities with a fair market value, as of the date of consummation of such Termination Transaction, equal to the transaction consideration referred to above, subject to antidilution adjustments, which we refer to as the "successor shares amount;" or (2) cash in an amount equal to the fair market value of the successor shares amount at the time of such redemption; or

(b) if we or our successor is not a REIT with a single class of publicly traded common equity securities, the right to redeem their interests in the surviving partnership at any time for cash in an amount equal to the fair market value of such interest at the time of redemption, as determined at least once every calendar quarter by an independent appraisal firm of recognized national standing retained by the surviving partnership.

In addition to the foregoing, if the consent of the limited partners is not obtained and if CBI and entities controlled by CBI own at least 20% of the outstanding common partnership units of our operating partnership held by all partners, neither we nor the general partner may engage in, or cause

Table of Contents

or permit, a Termination Transaction in connection with which we have or will seek the approval of our common stockholders, without the consent of the limited partners (other than us, the general partner and entities controlled by us or the general partner) holding a majority of the outstanding operating partnership units held by all partners (other than us, the general partner and entities controlled by us or the general partner) entitled to vote on or consent to such matter, unless we provide CBI and its controlled entities with advance notice of such transaction at least equal in time to the notice seeking our stockholder vote and with written materials describing the proposed Termination Transaction as well as the tax effect of the consummation thereof, and such Termination Transaction is approved by a number of affirmative votes cast, or deemed to have been cast, by "designated partners" as would be sufficient (measured as a percentage of the total number of votes cast or entitled to be cast (or deemed to be cast)), to approve the Termination Transaction, if such approval was to be given by the holders of shares of our common stock. For purposes of this partnership vote, designated partners holding operating partnership units shall be entitled to cast a number of votes equal to the total votes they would have been entitled to cast at our stockholder meeting had they submitted their operating partnership units for redemption and such operating partnership units had been acquired by us for our shares as of the record date for the stockholder meeting. In addition, in connection with such partnership vote, we and our subsidiaries will be deemed to have cast all votes that we would otherwise have been entitled to cast in proportion to the manner in which all of our outstanding shares of our common stock were voted in our stockholder vote. Designated partners means, collectively, (i) us and each of our wholly-owned subsidiaries that owns operating partnership units and (ii) CBI and all of the entities it controls that own operating partnership units.

In addition, as long as CBI, together with entities controlled by CBI, own at least 20% of the outstanding operating partnership units held by all partners, we may not engage in a Termination Transaction effected as a short-form merger without a stockholder vote pursuant to Section 3-106 of the MGCL, unless we have previously obtained either the consent of CBI or the consent of the limited partners with respect to such transaction.

**Term**

Our operating partnership will continue in full force and effect until dissolved in accordance with its terms or as otherwise provided by law.

**Indemnification and Limitation of Liability**

To the extent permitted by applicable law, the partnership agreement indemnifies 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 or that relate to the 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.

Partners of our operating partnership, including the general partner, are not liable to our operating partnership or its partners except for fraud, willful misconduct or gross negligence, and no trustee, officer or agent of the general partner (including us, in our capacity as the sole trustee of the general partner), and none of our directors, officers or agents have any duties directly to our operating partnership or its partners, and will not be liable to our operating partnership or its partners for money damages by reason of their service as such.

Table of Contents

## CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS

*The following summary of certain provisions of Maryland law and of our charter and bylaws does not purport to be complete and is subject to and qualified in its entirety by reference to Maryland law, including the MGCL, and our charter and bylaws. Copies of our charter and bylaws have been filed with the SEC and are incorporated by reference as exhibits to the registration statement of which this prospectus is a part. See "Where You Can Find More Information."*

### Our Board of Directors

Our charter and bylaws provide that the number of directors we have may be established only by our board of directors but may never be less than the minimum number required by the MGCL, and our bylaws provide that the number of our directors may not be more than 15. The partnership agreement of our operating partnership provides that, for so long as the number of operating partnership units and shares of our common stock held by CBI is equal to or greater than 50% of the total number of outstanding shares of our common stock and operating partnership units (excluding operating partnership units held by us or the general partner), CBI will have 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, but not less than one director, provided that at least one CBI nominee must meet the independence requirements under the rules, regulations and listing qualifications of the NASDAQ Global Select Market. With the board of directors having eight members, this would enable CBI to nominate three directors, although the election of each such nominee will be subject to the vote of our stockholders. Such rights to nominate directors would also decrease as follows:

- if CBI owned less than 50% but at least 10% of the outstanding shares of our common stock and operating partnership units (excluding operating partnership units held by us or the general partner), then CBI would be entitled to nominate 20% of the directors (rounded down, if necessary, to the nearest whole number), but not less than one director;

- if CBI owned less than 10% of the outstanding shares of our common stock and operating partnership units (excluding operating partnership units held by us or the general partner), then CBI would no longer be entitled to nominate any directors (except in accordance with the advance notice provisions in our bylaws, similarly to all other stockholders).

As long as CBI has the right to nominate at least one director, CBI will have the right to require that at least one of its nominees then serving as a director to be appointed to each committee of our board of directors (provided that such nominee is qualified as independent under the rules, regulations and listing qualifications of the NASDAQ Global Select Market for service on any applicable committee) other than any committee whose purpose is to evaluate or negotiate any transaction with CBI.

In addition, if a vacancy on the board of directors arises as a result of the death, disability, retirement, resignation or removal (with or without cause) of a CBI nominee and such vacancy results in the number of CBI nominees then on the board being less than the number that CBI is then entitled to nominate to the board of directors, it will be a qualification of a director that fills such vacancy that he or she was approved by a majority vote of the nominees of CBI then serving as directors.

Our board of directors consists of eight directors. Our charter and bylaws provide that the number of directors constituting our board of directors may be increased or decreased by a majority vote of our board of directors, provided that the number of directors may not be decreased to fewer than the minimum number required under the MGCL. In the event that any increase in the size of our board of directors results in CBI being entitled to designate an additional individual to the board of directors, it will be a qualification of a director that fills the resulting vacancy that he or she is a nominee of CBI.

Table of Contents

Effective upon our annual meeting of stockholders scheduled for May 1, 2014, the size of our board is expected to increase to nine members. See our Definitive Proxy on Schedule 14A filed with the SEC on March 19, 2014 for more information.

Subject to the terms of any class or series of preferred stock, vacancies on our board of directors may be filled only by a majority of the remaining directors, even if the remaining directors do not constitute a quorum, and any director elected to fill a vacancy will hold office for the remainder of the full term of the directorship in which the vacancy occurred and until his or her successor is duly elected and qualifies.

Each of our directors is elected by our stockholders to serve until the next annual meeting of our stockholders and until his or her successor is duly elected and qualifies. Holders of shares of our common stock have no right to cumulative voting in the election of directors. Consequently, the holders of a majority of the outstanding shares of our common stock can elect all of the directors then standing for election, and the holders of the remaining shares will not be able to elect any directors. Directors are elected by a plurality of all of the votes cast in the election of directors.

**Removal of Directors**

Our charter provides that a director may be removed only for cause (as defined in our charter) and only by the affirmative vote of a majority of the votes entitled to be cast generally in the election of directors. This provision, when coupled with the exclusive power of our board of directors to fill vacancies on our board of directors, precludes stockholders from removing incumbent directors (except for cause and upon a substantial affirmative vote) and filling the vacancies created by such removal with their own nominees.

**Business Combinations**

Under the MGCL, certain "business combinations" (including a merger, consolidation, statutory share exchange or, in certain circumstances, an asset transfer or issuance or reclassification of equity securities) between a Maryland corporation and an interested stockholder (defined generally as any person who beneficially owns, directly or indirectly, 10% or more of the voting power of the corporation's outstanding voting stock or an affiliate or associate of the corporation who, at any time during 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 such an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. Thereafter, any such business combination must generally be recommended by the board of directors of the corporation and approved by the affirmative vote of at least (i) 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation and (ii) two-thirds of the votes entitled to be cast by holders of voting stock of the corporation, other than shares held by the interested stockholder with whom (or with whose affiliate) the business combination is to be effected or held by an affiliate or associate of the interested stockholder, unless, among other conditions, the corporation's common stockholders receive a minimum price (as defined in the MGCL) for their shares and the consideration is received in cash or in the same form as previously paid by the interested stockholder for its shares. A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which the person otherwise would have become an interested stockholder. A corporation's board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

Pursuant to the statute, our board of directors has by resolution exempted business combinations between us and CBI or its affiliates and between us and any other person, provided that in the latter case the business combination is first approved by our board of directors (including a majority of our

Table of Contents

directors who are not affiliates or associates of such person). Consequently, the five-year prohibition and the supermajority vote requirements will not apply to a business combination between us and CBI or its affiliates or to a business combination between us and any other person if the board of directors has first approved the combination. As a result, any person described in the preceding sentence may be able to enter into business combinations with us that may not be in the best interests of our stockholders, without compliance with the supermajority vote requirements and other provisions of the statute. We cannot assure you that our board of directors will not amend or repeal this resolution in the future.

**Control Share Acquisitions**

The MGCL provides that holders of "control shares" of a Maryland corporation acquired in a "control share acquisition" have no voting rights with respect to such shares except to the extent approved by the affirmative vote of at least two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquirer, an officer of the corporation or an employee of the corporation who is also a director of the corporation are excluded from shares entitled to vote on the matter.

"Control shares" are voting shares of stock that, if aggregated with all other such shares of stock owned by the acquirer, or in respect of which the acquirer is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquirer to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third;

one-third or more but less than a majority; or

a majority or more of all voting power.

Control shares do not include shares that the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval or shares acquired directly from the corporation. A "control share acquisition" means the acquisition of issued and outstanding control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition, upon satisfaction of certain conditions (including an undertaking to pay expenses and making an "acquiring person statement" as described in the MGCL), may compel the board of directors to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an "acquiring person statement" as required by the statute, then, subject to certain conditions and limitations, the corporation may redeem any or all of the control shares (except those for which voting rights have previously been approved) for fair value determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquirer or if a meeting of stockholders was held at which the voting rights of such shares are considered and not approved, as of the date of such meeting. If voting rights for control shares are approved at a stockholders' meeting and the acquirer becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of such appraisal rights may not be less than the highest price per share paid by the acquirer in the control share acquisition.

The control share acquisition statute does not apply to shares acquired in a merger, consolidation or statutory share exchange if the corporation is a party to the transaction or acquisitions approved or exempted by the charter or bylaws of the corporation.

Table of Contents

Our bylaws contain a provision exempting from the control share acquisition statute any and all acquisitions by any person of shares of our stock. This provision may be amended or eliminated at any time in the future by our board of directors.

**Subtitle 8**

Subtitle 8 of Title 3 of the MGCL permits a Maryland corporation with a class of equity securities registered under the Exchange Act and at least three independent directors to elect to be subject, by provision in its charter or bylaws or a resolution of its board of directors and notwithstanding any contrary provision in the charter or bylaws, to any or all of five provisions of the MGCL that provide, respectively, for:

a classified board;

a two-thirds vote requirement for removing a director;

a requirement that the number of directors be fixed only by vote of the board of directors;

a requirement that a vacancy on the board be filled only by the remaining directors in office and (if the board is classified) for the remainder of the full term of the class of directors in which the vacancy occurred; and

a majority requirement for the calling of a stockholder-requested special meeting of stockholders.

Pursuant to Subtitle 8, we have elected to provide that vacancies on our board may be filled only by the remaining directors and that directors elected by the board to fill vacancies will serve for the remainder of the full term of the directorship in which the vacancy occurred. Through provisions in our charter and bylaws unrelated to Subtitle 8, we already (i) vest in the board the exclusive power to fix the number of directorships and (ii) require, unless called by our chairman of the board, our chief executive officer, our president or our board of directors, the written request of stockholders entitled to cast a majority of all of the votes entitled to be cast at such a meeting to call a special meeting.

**Meetings of Stockholders**

Pursuant to our bylaws, a meeting of our stockholders for the election of directors and the transaction of any business will be held annually on a date and at the time and place set by our board of directors. The chairman of our board of directors, our chief executive officer, our president or our board of directors may call a special meeting of our stockholders. Subject to the provisions of our bylaws, a special meeting of our stockholders to act on any matter that may properly be brought before a meeting of our stockholders must also be called by our secretary upon the written request of the stockholders entitled to cast a majority of all the votes entitled to be cast on such matter at the meeting and containing the information required by our bylaws. Our secretary will inform the requesting stockholders of the reasonably estimated cost of preparing and delivering the notice of meeting (including our proxy materials), and the requesting stockholder must pay such estimated cost before our secretary is required to prepare and deliver the notice of the special meeting.

**Amendments to Our Charter and Bylaws**

Except for those amendments permitted to be made without stockholder approval under Maryland law or our charter, our charter generally may be amended only if the amendment is first declared advisable by our board of directors and thereafter approved by the affirmative vote of stockholders entitled to cast a majority of all of the votes entitled to be cast on the matter.

Subject to certain consent rights of CBI, our board of directors has the exclusive power to adopt, alter or repeal any provision of our bylaws and to make new bylaws.

Table of Contents

**Transactions Outside the Ordinary Course of Business**

Under the MGCL, a Maryland corporation generally may not dissolve, merge or consolidate with, or convert to, another entity, sell all or substantially all of its assets or engage in a statutory share exchange unless the action is declared advisable by the board of directors and approved by the affirmative vote of stockholders entitled to cast at least two-thirds of the votes entitled to be cast on the matter, unless a lesser percentage (but not less than a majority of all of the votes entitled to be cast on the matter) is specified in the corporation's charter. Our charter provides that these actions must be approved by a majority of all of the votes entitled to be cast on the matter.

**Dissolution of Our Company**

The dissolution of our company must be declared advisable by a majority of our entire board of directors and approved by the affirmative vote of the holders of a majority of all of the votes entitled to be cast on the matter.

**Advance Notice of Director Nominations and New Business**

Our bylaws provide that, with respect to an annual meeting of our stockholders, nominations of individuals for election to our board of directors and the proposal of other business to be considered by our stockholders may be made only (i) pursuant to our notice of the meeting, (ii) by or at the direction of our board of directors or (iii) by any stockholder who was a stockholder of record both at the time of giving the notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting on such business or in the election of such nominee and has provided notice to us within the time period, and containing the information and other materials, specified in the advance notice provisions of our bylaws.

With respect to special meetings of stockholders, only the business specified in our notice of meeting may be brought before the meeting. Nominations of individuals for election to our board of directors may be made only (i) by or at the direction of our board of directors or (ii) if the meeting has been called for the purpose of electing directors, by any stockholder who was a stockholder of record both at the time of giving the notice required by our bylaws and at the time of the meeting, who is entitled to vote at the meeting in the election of each such nominee and who has provided notice to us within the time period, and containing the information and other materials, specified in the advance notice provisions of our bylaws.

The advance notice procedures of our bylaws provide that, to be timely, a stockholder's notice with respect to director nominations or other proposals for an annual meeting must be delivered to our corporate secretary at our principal executive office not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date of the proxy statement for our preceding year's annual meeting. With respect to our 2014 annual meeting or in the event that the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year's annual meeting, to be timely, a stockholder's notice must be delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the close of business on the later of the 120th day prior to the date of such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made.

**REIT Qualification**

Our charter provides that our board of directors may authorize us to revoke or otherwise terminate our REIT election, without approval of our stockholders, if it determines that it is no longer in our best interests to continue to qualify as a REIT.

Table of Contents

**Effects of Certain Provisions of Maryland Law and of Our Charter and Bylaws**

Our charter and bylaws and Maryland law contain provisions that may delay, defer or prevent a change in control or other transaction that might involve a premium price for shares of our common stock or otherwise be in the best interests of our stockholders, including business combination provisions, supermajority vote requirements and advance notice requirements for director nominations and other stockholder proposals. Likewise, if the provision in our bylaws opting out of the control share acquisition provisions of the MGCL were rescinded or if we were to opt in to the classified board or other provisions of Subtitle 8, these provisions of the MGCL could have similar anti-takeover effects.

**Indemnification and Limitation of Directors' and Officers' Liability**

Maryland law permits a Maryland corporation to include in its charter a provision limiting the liability of its directors and officers to the corporation and its stockholders for money damages, except for liability resulting from (i) actual receipt of an improper benefit or profit in money, property or services or (ii) active and deliberate dishonesty that is established by a final judgment and that is material to the cause of action. Our charter contains a provision that eliminates the liability of our directors and officers to the maximum extent permitted by Maryland law.

The MGCL requires us (unless our charter provides otherwise, which our charter does not) to indemnify a director or officer who has been successful, on the merits or otherwise, in the defense of any proceeding to which he or she is made a party by reason of his or her service in that capacity. The MGCL permits us to indemnify our present and former directors and officers, among others, against judgments, penalties, fines, settlements and reasonable expenses actually incurred by them in connection with any proceeding to which they may be made or threatened to be made a party by reason of their service in those or other capacities unless it is established that:

- the act or omission of the director or officer was material to the matter giving rise to the proceeding and (a) was committed in bad faith or (b) was the result of active and deliberate dishonesty;
- the director or officer actually received an improper personal benefit in money, property or services; or
- in the case of any criminal proceeding, the director or officer had reasonable cause to believe that the act or omission was unlawful.

Under the MGCL, we may not indemnify a director or officer in a suit by us or in our right in which the director or officer was adjudged liable to us or in a suit in which the director or officer was adjudged liable on the basis that personal benefit was improperly received. A court may order indemnification if it determines that the director or officer is fairly and reasonably entitled to indemnification, even though the director or officer did not meet the prescribed standard of conduct or was adjudged liable on the basis that personal benefit was improperly received. However, indemnification for an adverse judgment in a suit by us or in our right, or for a judgment of liability on the basis that personal benefit was improperly received, is limited to expenses.

In addition, the MGCL permits us to advance reasonable expenses to a director or officer upon our receipt of:

- a written affirmation by the director or officer of his or her good faith belief that he or she has met the standard of conduct necessary for indemnification by us; and
- a written undertaking by or on behalf of the director or officer to repay the amount paid or reimbursed by us if it is ultimately determined that the director or officer did not meet the standard of conduct.

Table of Contents

Our charter authorizes us to obligate ourselves, and our bylaws obligate us, to the maximum extent permitted by Maryland law in effect from time to time, to indemnify and, without requiring a preliminary determination of the ultimate entitlement to indemnification, pay or reimburse reasonable expenses in advance of final disposition of a proceeding to:

- any present or former director or officer who is made or threatened to be made a party to, or witness in, a proceeding by reason of his or her service in that capacity; or

- any individual who, while a director or officer of our company and at our request, serves or has served as a director, officer, partner, trustee, member or manager of another corporation, REIT, limited liability company, partnership, joint venture, trust, employee benefit plan or any other enterprise and who is made or threatened to be made a party to the proceeding by reason of his or her service in that capacity.

Our charter and bylaws also permit us to indemnify and advance expenses to any person who served a predecessor of ours in any of the capacities described above and to any employee or agent of our company or a predecessor of our company.

We have entered into indemnification agreements with each of our directors and executive officers that provide for indemnification to the maximum extent permitted by Maryland law.

The partnership agreement provides that we, 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 are indemnified to the fullest extent permitted by law. See "Description of the Partnership Agreement of CyrusOne LP  Indemnification and Limitation of Liability."

Insofar as the foregoing provisions permit indemnification of directors, officers or persons controlling us for liability arising under the Securities Act, we have been informed that, in the opinion of the SEC, this indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Table of Contents

## EXCHANGE OF OPERATING PARTNERSHIP UNITS FOR COMMON STOCK

**Terms of the Exchange**

As of January 24, 2014, limited partners of our operating partnership may require our operating partnership to redeem part or all of their operating partnership units for cash, or, at our election, shares of our common stock, by delivering to us, as general partner of our operating partnership, a notice of redemption. Upon receipt of the notice of redemption, we may elect to undertake an Exchange, pursuant to which we exchange some or all of those operating partnership units for shares of our common stock on a one-to-one basis, subject to adjustment as provided in the partnership agreement, and subject to the ownership limits set forth in our charter and described under the section entitled "Description of Securities  Restrictions on Ownership and Transfer." See "Description of the Partnership Agreement of CyrusOne LP." Under certain circumstances we may elect to undertake a Redemption, pursuant to which we redeem our operating partnership units with the proceeds from a public offering or private placement of our common stock. See "Description of the Partnership Agreement of CyrusOne LP  Redemption/Exchange Rights." The limited partners of our operating partnership who hold operating partnership units which may be redeemed for shares of our common stock issued under this prospectus are referred to as the "participating unitholders." The participating unitholders hold an aggregate of 42,586,835 operating partnership units.

Once we receive a notice of redemption from a limited partner, we will determine whether to redeem the tendering partner's operating partnership units for cash or exchange some or all of the tendering partner's operating partnership units for shares of our common stock. We will notify the tendering partner within five business days after we receive the notice of redemption if we decide to exchange the tendering partner's operating partnership units for shares of our common stock. Any shares of our common stock that we issue will be duly authorized, validly issued, fully paid and nonassessable shares, free of any pledge, lien, encumbrance or restriction other than those provided in:

our charter;

the Securities Act; and

relevant state securities or blue sky laws.

Each tendering partner will continue to own all operating partnership units subject to any redemption or exchange, and be treated as a limited partner with respect to the operating partnership units for all purposes, until the limited partner transfers the operating partnership units to us, is paid for them or receives shares of our common stock in exchange for them. Until that time, the limited partner will have no rights as one of our stockholders with respect to the shares issued under this prospectus.

**Redemption**

If we elect to redeem operating partnership units tendered for redemption for cash based on the fair market value of an equivalent number of shares of our common stock at the time of redemption, determined in accordance with and subject to adjustment as provided in the partnership agreement, we may generate the proceeds for such Redemption through a primary offering of shares of our common stock.

In addition, if our election to acquire operating partnership units tendered for redemption in exchange for shares of our common stock in an Exchange would cause any person to violate the restrictions on ownership and transfer of our stock and such excess operating partnership units (and any other operating partnership units that the tendering limited partner agrees to treat as such) have a value of at least $50,000,000 (based on an operating partnership unit having a value equal to the trailing ten-day daily price of our common stock) and we are eligible to file a registration statement on

Table of Contents

Form S-3 under the Securities Act, then we may also elect to undertake a Redemption, pursuant to which we redeem the operating partnership units with the proceeds from a public offering or private placement of our common stock. In the event we elect to undertake a Redemption, we may require the other limited partners to also elect whether or not to participate. Participating limited partners will receive on the redemption date for each operating partnership unit (subject to adjustment) the net proceeds per share received in the public offering, but will have a limited opportunity to withdraw their operating partnership units from the redemption immediately prior to the pricing of the public offering.

**Conditions to the Exchange**

All redemptions and issuances of our common stock in exchange for operating partnership units to a tendering partner will be subject to the following conditions:

- an Exchange may not cause the tendering partner or any other person to violate the ownership limit or other restrictions on ownership and transfer of our stock set forth in our charter;

- without our consent, no tendering partner may effect a redemption for less than 2,000 operating partnership units, or, if such tendering partner holds less than 2,000 operating partnership units, all of the operating partnership units held by the tendering partner;

- if a redemption is effected during the period after the record date that we established for a distribution from our operating partnership to its partners and before the record date that we established for a distribution to our common stockholders and we elect to undertake an Exchange for any of the tendered operating partnership units, then such tendering partner shall pay us on the redemption date an amount equal to the operating partnership distribution paid or payable with respect to such operating partnership units; and

- the consummation of any redemption or Exchange will be subject to the expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

Table of Contents

**U.S. FEDERAL INCOME TAX CONSIDERATIONS**

The following is a summary of the material U.S. federal income tax consequences of an investment in our common stock. For purposes of this section under the heading "U.S. Federal Income Tax Considerations," references to "CyrusOne Inc.," "we," "our" and "us" generally mean only CyrusOne Inc. and not its subsidiaries or other lower-tier entities, except as otherwise indicated, and references to "tenants" are to persons who are treated as lessees of real property for purposes of the REIT requirements including, in general, persons who are referred to as "customers" elsewhere in this prospectus. This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), the regulations promulgated by the Treasury, rulings and other administrative pronouncements issued by the IRS, and judicial decisions, all as currently in effect, and all of which are subject to differing interpretations or to change, possibly with retroactive effect. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences described below. The summary is also based upon the assumption that we and our subsidiaries and affiliated entities will operate in accordance with our and their applicable organizational documents. This summary is for general information only and is not tax advice. It does not discuss any state, local or non-U.S. tax consequences relevant to us or an investment in our common stock, and it does not purport to discuss all aspects of U.S. federal income taxation that may be important to a particular investor in light of its investment or tax circumstances or to investors subject to special tax rules, such as:

- financial institutions;
- insurance companies;
- broker-dealers;
- regulated investment companies;
- partnerships, other pass-through entities and trusts;
- persons who hold our stock on behalf of other persons as nominees;
- persons who receive our stock through the issuance of restricted stock pursuant to our 2012 Long Term Incentive Plan or otherwise as compensation;
- persons holding our stock as part of a "straddle," "hedge," "conversion transaction," "synthetic security" or other integrated investment;

and, except to the extent discussed below:

- tax-exempt organizations; and
- foreign investors.

This summary assumes that investors will hold their shares of our common stock as a capital asset, which generally means property held for investment.

**The U.S. federal income tax treatment of holders of our common stock depends in some instances on determinations of fact and interpretations of complex provisions of U.S. federal income tax law for which no clear precedent or authority may be available. In addition, the tax consequences to any particular stockholder of holding our common stock will depend on the stockholder's particular**

**tax circumstances. You are urged to consult your tax advisor regarding the U.S. federal, state, local, and foreign income and other tax consequences to you in light of your particular investment or tax circumstances of acquiring, holding, exchanging, or otherwise disposing of our common stock.**

Table of Contents

**Taxation of CyrusOne Inc.**

We intend to continue to operate in a manner that will allow us to qualify as a REIT commencing with our taxable year ended December 31, 2013, and we will make our REIT election upon filing of our 2013 federal income tax return.

The law firm of Skadden, Arps, Slate, Meagher & Flom LLP has acted as our special REIT tax counsel ("Special Tax Counsel"), and we expect to receive an opinion of Special Tax Counsel to the effect that we have been organized in conformity with the requirements for qualification and taxation as a REIT under the Code, and that our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT. It must be emphasized that the opinion of Special Tax Counsel is based on various assumptions relating to our organization and operation, and is conditioned upon fact-based representations and covenants made by our management regarding our organization, assets, and income, and the present and future conduct of our business operations. While we intend to operate so that we will qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given by Special Tax Counsel or by us that we will qualify as a REIT for any particular year. The opinion will be expressed as of the date issued. Special Tax Counsel will have no obligation to advise us or our stockholders of any subsequent change in the matters stated, represented or assumed, or of any subsequent change in the applicable law. You should be aware that opinions of counsel are not binding on the IRS, and no assurance can be given that the IRS will not challenge the conclusions set forth in such opinions.

Qualification and taxation as a REIT depends on our ability to meet on a continuing basis, through actual operating results, distribution levels, and diversity of stock ownership, various qualification requirements imposed upon REITs by the Code, all the result of which will not be reviewed by Special Tax Counsel. Our ability to qualify as a REIT also requires that we satisfy certain asset tests, some of which depend upon the fair market values of assets that we own directly or indirectly. Such values may not be susceptible to a precise determination. Accordingly, no assurance can be given that the actual results of our operations for any taxable year will satisfy such requirements for qualification and taxation as a REIT.

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, HVAC, 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.

***Taxation of REITs in General***

As indicated above, our qualification and taxation as a REIT depends upon our ability to meet, on a continuing basis, various qualification requirements imposed upon REITs by the Code. The material qualification requirements are summarized below under " Requirements for Qualification General." While we intend to operate so that we qualify as a REIT, no assurance can be given that the IRS will not challenge our qualification, or that we will be able to operate in accordance with the REIT requirements in the future. See " Failure to Qualify."

Provided that we qualify as a REIT, generally we will be entitled to a deduction for dividends that we pay and therefore will not be subject to U.S. federal corporate income tax on our net taxable income that is currently distributed to our stockholders. This treatment substantially eliminates the "double taxation" at the corporate and stockholder levels that generally results from an investment in a

Table of Contents

C corporation. A "C corporation" is a corporation that generally is required to pay tax at the corporate level. Double taxation means taxation once at the corporate level when income is earned and once again at the stockholder level when the income is distributed. In general, the income that we generate is taxed only at the stockholder level upon a distribution of dividends to our stockholders.

Most U.S. stockholders that are individuals, trusts or estates are taxed on corporate dividends at a maximum U.S. federal income tax rate of 20% (the same as long-term capital gains). With limited exceptions, however, dividends from us or from other entities that are taxed as REITs are generally not eligible for this rate and will continue to be taxed at rates applicable to ordinary income. The highest marginal non-corporate U.S. federal income tax rate applicable to ordinary income is 39.6%. See " Taxation of Stockholders Taxation of Taxable U.S. Stockholders Distributions."

Any net operating losses, foreign tax credits and other tax attributes generally do not pass through to our stockholders, subject to special rules for certain items such as the capital gains that we recognize. See " Taxation of Stockholders Taxation of Taxable U.S. Stockholders Distributions."

If we qualify as a REIT, we will nonetheless be subject to U.S. federal tax in the following circumstances:

We will be taxed at regular corporate rates on any undistributed net taxable income, including undistributed net capital gains.

We may be subject to the "alternative minimum tax" on our items of tax preference, including any deductions of net operating losses.

If we have net income from prohibited transactions, which are, in general, sales or other dispositions of inventory or property held primarily for sale to customers in the ordinary course of business, other than foreclosure property, such income will be subject to a 100% tax. See " Prohibited Transactions" and " Foreclosure Property" below.

If we elect to treat property that we acquire in connection with a foreclosure of a mortgage loan or certain leasehold terminations as "foreclosure property," we may thereby avoid the 100% tax on gain from a resale of that property (if the sale would otherwise constitute a prohibited transaction), but the income from the sale or operation of the property may be subject to corporate income tax at the highest applicable rate (currently 35%).

If we fail to satisfy the 75% gross income test or the 95% gross income test, as discussed below, but nonetheless maintain our qualification as a REIT because we satisfy other requirements, we will be subject to a 100% tax on an amount based on the magnitude of the failure, as adjusted to reflect the profit margin associated with our gross income.

If we violate the asset tests (other than certain de minimis violations) or other requirements applicable to REITs, as described below, and yet maintain our qualification as a REIT because there is reasonable cause for the failure and other applicable requirements are met, we may be subject to a penalty tax. In that case, the amount of the penalty tax will be at least $50,000 per failure, and, in the case of certain asset test failures, will be determined as the amount of net income generated by the nonqualifying assets in question multiplied by the highest corporate tax rate (currently 35%) if that amount exceeds $50,000 per failure.

If we fail to distribute during each calendar year at least the sum of (i) 85% of our ordinary income for such year, (ii) 95% of our capital gain net income for such year and (iii) any undistributed net taxable income from prior periods, we will be subject to a nondeductible 4% excise tax on the excess of the required distribution over the sum of (a) the amounts that we actually distributed and (b) the amounts we retained and upon which we paid income tax at the corporate level.

Table of Contents

We may be required to pay monetary penalties to the IRS in certain circumstances, including if we fail to meet record-keeping requirements intended to monitor our compliance with rules relating to the composition of a REIT's stockholders, as described below in " Requirements for Qualification General."

A 100% tax may be imposed on transactions between us and a TRS that do not reflect arm's length terms.

If we acquire appreciated assets from a corporation that is not a REIT (i.e., a corporation taxable under subchapter C of the Code) in a transaction in which the adjusted tax basis of the assets in our hands is determined by reference to the adjusted tax basis of the assets in the hands of the subchapter C corporation, we may be subject to tax on such appreciation at the highest corporate income tax rate then applicable if we subsequently recognize gain on a disposition of any such assets during the ten-year period following their acquisition from the subchapter C corporation.

The earnings of our TRSs will generally be subject to U.S. federal corporate income tax.

In addition, we and our subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local, and foreign income, property, gross receipts and other taxes on our assets and operations. We could also be subject to tax in situations and on transactions not presently contemplated.

***Requirements for Qualification General***

The Code defines a REIT as a corporation, trust or association:

1. that is managed by one or more trustees or directors;
2. the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;
3. that would be taxable as a domestic corporation but for its election to be subject to tax as a REIT;
4. that is neither a financial institution nor an insurance company subject to specific provisions of the Code;
5. the beneficial ownership of which is held by 100 or more persons;
6. in which, during the last half of each taxable year, not more than 50% in value of the outstanding stock is owned, directly or indirectly, by five or fewer "individuals" (as defined in the Code to include specified tax-exempt entities); and
7. that meets other tests described below, including with respect to the nature of its income and assets.

The Code provides that conditions (1) through (4) must be met during the entire taxable year, and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year. Conditions (5) and (6) need not be met during a corporation's initial tax year as a REIT (which, in our case, was 2013). Our charter provides restrictions regarding the ownership and transfers of our stock, which are intended to assist us in satisfying the stock ownership requirements described in conditions (5) and (6) above. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy the share ownership requirements described in conditions (5) and (6) above. If we fail to satisfy these share ownership requirements, except as provided in the next sentence, our status as a REIT will terminate. If, however, we comply with the rules contained in applicable Treasury regulations that require us to ascertain the actual ownership of

Table of Contents

our shares and we do not know, or would not have known through the exercise of reasonable diligence, that we failed to meet the requirement described in condition (6) above, we will be treated as having met this requirement.

To monitor compliance with the stock ownership requirements, we generally are required to maintain records regarding the actual ownership of our stock. To do so, we must demand written statements each year from the record holders of significant percentages of our stock pursuant to which the record holders must disclose the actual owners of the stock (i.e., the persons required to include our dividends in their gross income). We must maintain a list of those persons failing or refusing to comply with this demand as part of our records. We could be subject to monetary penalties if we fail to comply with these record-keeping requirements. If you fail or refuse to comply with the demands, you will be required by Treasury regulations to submit a statement with your tax return disclosing your actual ownership of our stock and other information.

In addition, a corporation generally may not elect to become a REIT unless its taxable year is the calendar year. We adopted December 31 as our year-end and thereby satisfy this requirement.

***Effect of Subsidiary Entities***

*Ownership of Partnership Interests.* If we are a partner in an entity that is treated as a partnership for U.S. federal income tax purposes, such as our operating partnership, Treasury regulations provide that we are deemed to own our proportionate share of the partnership's assets, and to earn our proportionate share of the partnership's income, for purposes of the asset and gross income tests applicable to REITs. Our proportionate share of a partnership's assets and income is based on our capital interest in the partnership (except that for purposes of the 10% value test, described below, our proportionate share of the partnership's assets is based on our proportionate interest in the equity and certain debt securities issued by the partnership). In addition, the assets and gross income of the partnership are deemed to retain the same character in our hands. Thus, our proportionate share of the assets and items of income of any of our subsidiary partnerships will be treated as our assets and items of income for purposes of applying the REIT requirements.

We generally have control of our operating partnership and the subsidiary partnerships and limited liability companies and intend to operate them in a manner consistent with the requirements for our qualification as a REIT. If we become a limited partner or non-managing member in any partnership or limited liability company and such entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity. In addition, it is possible that a partnership or limited liability company could take an action which could cause us to fail a gross income or asset test, and that we would not become aware of such action in time to dispose of our interest in the partnership or limited liability company or take other corrective action on a timely basis. In that case, we could fail to qualify as a REIT unless we were entitled to relief, as described below.

*Disregarded Subsidiaries.* If we own a corporate subsidiary that is a "qualified REIT subsidiary," that subsidiary is generally disregarded as a separate entity for U.S. federal income tax purposes, and all of the subsidiary's assets, liabilities and items of income, deduction and credit are treated as our assets, liabilities and items of income, deduction and credit, including for purposes of the gross income and asset tests applicable to REITs. A qualified REIT subsidiary is any corporation, other than a TRS (as described below), that is directly or indirectly wholly-owned by a REIT. Other entities that are wholly-owned by us, including single member limited liability companies that have not elected to be taxed as corporations for U.S. federal income tax purposes, are also generally disregarded as separate entities for U.S. federal income tax purposes, including for purposes of the REIT income and asset tests. Disregarded subsidiaries, along with any partnerships in which we hold an equity interest, are sometimes referred to herein as "pass-through subsidiaries."

Table of Contents

In the event that a disregarded subsidiary of ours ceases to be wholly-owned for example, if any equity interest in the subsidiary is acquired by a person other than us or another disregarded subsidiary of ours the subsidiary's separate existence would no longer be disregarded for U.S. federal income tax purposes. Instead, the subsidiary would have multiple owners and would be treated as either a partnership or a taxable corporation. Such an event could, depending on the circumstances, adversely affect our ability to satisfy the various asset and gross income requirements applicable to REITs, including the requirement that REITs generally may not own, directly or indirectly, more than 10% of the securities of another corporation. See " Asset Tests" and " Income Tests."

*Taxable REIT Subsidiaries.* In general, we may jointly elect with a subsidiary corporation, whether or not wholly-owned, to treat such subsidiary corporation as a TRS. We generally may not own more than 10% of the securities of a taxable corporation, as measured by voting power or value, unless we and such corporation elect to treat such corporation as a TRS. The separate existence of a TRS or other taxable corporation is not ignored for U.S. federal income tax purposes. Accordingly, a TRS or other taxable subsidiary corporation generally is subject to corporate income tax on its earnings, which may reduce the cash flow that we and our subsidiaries generate in the aggregate, and may reduce our ability to make distributions to our stockholders.

We are not treated as holding the assets of a TRS or other taxable subsidiary corporation or as receiving any income that the subsidiary earns. Rather, the stock issued by a taxable subsidiary corporation to us is an asset in our hands, and we treat the dividends paid to us from such taxable subsidiary corporation, if any, as income. This treatment can affect our income and asset test calculations, as described below. Because we do not include the assets and income of TRSs or other taxable subsidiary corporations on a look-through basis in determining our compliance with the REIT requirements, we may use such entities to undertake indirectly activities that the REIT rules might otherwise preclude us from doing directly or through pass-through subsidiaries. For example, we may use TRSs or other taxable subsidiary corporations to perform services or conduct activities that give rise to certain categories of income such as management fees, or to conduct activities that, if conducted by us directly, would be treated in our hands as prohibited transactions.

The TRS rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. Further, the rules impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's tenants that are not conducted on an arm's length basis. We intend that all of our transactions with our TRSs, if any, will be conducted on an arm's length basis.

***Income Tests***

In order to qualify as a REIT, we must satisfy two gross income requirements on an annual basis. First, at least 75% of our gross income for each taxable year, excluding gross income from sales of inventory or dealer property in "prohibited transactions," discharge of indebtedness and certain hedging transactions, generally must be derived from "rents from real property," gains from the sale of real estate assets, interest income derived from mortgage loans secured by real property (including certain types of mortgage-backed securities), dividends received from other REITs, and specified income from temporary investments. Second, at least 95% of our gross income in each taxable year, excluding gross income from prohibited transactions, discharge of indebtedness and certain hedging transactions, must be derived from some combination of income that qualifies under the 75% gross income test described above, as well as other dividends, interest, and gain from the sale or disposition of stock or securities, which need not have any relation to real property. Income and gain from certain hedging transactions will be excluded from both the numerator and the denominator for purposes of both the 75% and 95% gross income tests.

Table of Contents

*Rents from Real Property.* Rents we receive from a tenant will qualify as "rents from real property" for the purpose of satisfying the gross income requirements for a REIT described above only if all of the conditions described below are met.

The amount of rent is not based in whole or in part on the income or profits of any person. However, an amount we receive or accrue generally will not be excluded from the term "rents from real property" solely because it is based on a fixed percentage or percentages of receipts or sales;

Neither we nor an actual or constructive owner of 10% or more of our stock actually or constructively owns 10% or more of the interests in the assets or net profits of a non-corporate tenant, or, if the tenant is a corporation, 10% or more of the total combined voting power of all classes of stock entitled to vote or 10% or more of the total value of all classes of stock of the tenant. Rents we receive from such a tenant that is a TRS of ours, however, will not be excluded from the definition of "rents from real property" as a result of this condition if at least 90% of the space at the property to which the rents relate is leased to third parties, and the rents paid by the TRS are substantially comparable to rents paid by our other tenants for comparable space. Whether rents paid by a TRS are substantially comparable to rents paid by other tenants is determined at the time the lease with the TRS is entered into, extended, and modified, if such modification increases the rents due under such lease. Notwithstanding the foregoing, however, if a lease with a "controlled TRS" is modified and such modification results in an increase in the rents payable by such TRS, any such increase will not qualify as "rents from real property." For purposes of this rule, a "controlled TRS" is a TRS in which the parent REIT owns stock possessing more than 50% of the voting power or more than 50% of the total value of the outstanding stock of such TRS;

Rent attributable to personal property that is leased in connection with a lease of real property is not greater than 15% of the total rent received under the lease. If this condition is not met, then the portion of the rent attributable to personal property will not qualify as "rents from real property"; and

We generally do not operate or manage the property or furnish or render services to our tenants, subject to a 1% de minimis exception and except as provided below. We are permitted, however, to perform directly certain services that are "usually or customarily rendered" in connection with the rental of space for occupancy only and are not otherwise considered "rendered to the occupant" of the property. Examples of these permitted services include the provision of light, heat, or other utilities, trash removal and general maintenance of common areas. In addition, we are permitted to employ an independent contractor from whom we derive no revenue to provide customary services to our tenants, or a TRS, which may be wholly or partially owned by us, to provide both customary and non-customary services to our tenants without causing the rent that we receive from those tenants to fail to qualify as "rents from real property." Any amounts that we receive from a TRS with respect to the TRS's provision of non-customary services will, however, be nonqualifying income under the 75% gross income test and, except to the extent received through the payment of dividends, the 95% gross income test.

A significant portion of the value of our properties is attributable to structural components related to the provision of electricity, heating ventilation and air conditioning, regulation of humidity, security and fire protection, and telecommunications infrastructure. In addition, we or our affiliates will provide certain services to tenants of our properties. We expect that our structural components will be treated as real property for purposes of the REIT gross income tests, and we intend to structure the provision of services in a manner that does not prevent our rental income from qualifying as "rents from real property." 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

Table of Contents

contained therein, that certain structural components of our properties (e.g., relating to the provision of electricity, HVAC, regulation of humidity, security and fire protection, and telecommunication services), 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.

As described above, as of the date of this prospectus, CBI owns approximately 8.3% of our common stock and approximately 65.2% of our operating partnership units. In an Exchange, some or all of those units may be exchanged for shares of our common stock, and any such Exchange could result in CBI owning a significant percentage of our common stock. See "Description of the Partnership Agreement of CyrusOne LP  Redemption/Exchange Rights." 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.

We intend to cause any services that are not "usually or customarily rendered," or that are for the benefit of a particular tenant in connection with the rental of real property, to be provided through a TRS or through an "independent contractor." However, no assurance can be given that the IRS will concur with our determination as to whether a particular service is usual or customary, or otherwise in this regard.

*Interest Income.* Interest income constitutes qualifying mortgage interest for purposes of the 75% gross income test (as described above) to the extent that the obligation upon which such interest is paid is secured by a mortgage on real property. If we receive interest income with respect to a mortgage loan that is secured by both real property and other property, and the highest principal amount of the loan outstanding during a taxable year exceeds the fair market value of the real property on the date that we acquired or originated the mortgage loan, the interest income will be apportioned between the real property and the other collateral, and our income from the arrangement will qualify for purposes of the 75% gross income test only to the extent that the interest is allocable to the real property. Even if a loan is not secured by real property, or is undersecured, the income that it generates may nonetheless qualify for purposes of the 95% gross income test. For these purposes, the term "interest" generally does not include any amount received or accrued, directly or indirectly, if the determination of all or some of the amount depends in any way on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term "interest" solely by reason of being based on a fixed percentage or percentages of receipts or sales.

*Dividend Income.* We may directly or indirectly receive distributions from TRSs or other corporations that are not REITs or qualified REIT subsidiaries. These distributions generally are treated as dividend income to the extent of the earnings and profits of the distributing corporation. Such distributions will generally constitute qualifying income for purposes of the 95% gross income test, but not for purposes of the 75% gross income test. Any dividends that we receive from another REIT, however, will be qualifying income for purposes of both the 95% and 75% gross income tests.

Table of Contents

*Fee Income.* Any fee income that we earn will generally not be qualifying income for purposes of either gross income test. Any fees earned by a TRS, however, will not be included for purposes of our gross income tests.

*Hedging Transactions.* Any income or gain that we or our pass-through subsidiaries derive from instruments that hedge certain risks, such as the risk of changes in interest rates, will be excluded from gross income for purposes of both the 75% and 95% gross income tests, provided that specified requirements are met, including the requirement that the instrument is entered into during the ordinary course of our business, the instrument hedges risks associated with indebtedness issued by us or our pass-through subsidiary that is incurred to acquire or carry "real estate assets" (as described below under " Asset Tests"), and the instrument is properly identified as a hedge along with the risk that it hedges within prescribed time periods. Income and gain from all other hedging transactions will not be qualifying income for either the 95% or 75% gross income test.

*Failure to Satisfy the Gross Income Tests.* If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, including as a result of rents received by us from CBI failing to qualify as "rents from real property," we may still qualify as a REIT for such year if we are entitled to relief under applicable provisions of the Code. These relief provisions will be generally available if (i) our failure to meet these tests was due to reasonable cause and not due to willful neglect and (ii) following our identification of the failure to meet the 75% or 95% gross income test for any taxable year, we file a schedule with the IRS setting forth each item of our gross income for purposes of the 75% or 95% gross income test for such taxable year in accordance with Treasury regulations, which have not yet been issued. It is not possible to state whether we would be entitled to the benefit of these relief provisions in all circumstances. If these relief provisions are inapplicable to a particular set of circumstances, we will not qualify as a REIT. Even if these relief provisions apply, and we retain our status as a REIT, the Code imposes a tax based upon the amount by which we fail to satisfy the particular gross income test.

***Asset Tests***

At the close of each calendar quarter, we must also satisfy four tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by some combination of "real estate assets," cash, cash items, U.S. government securities, and, under some circumstances, stock or debt instruments purchased with new capital. For this purpose, real estate assets include interests in real property and stock of other corporations that qualify as REITs, as well as some kinds of mortgage-backed securities and mortgage loans. Assets that do not qualify for purposes of the 75% asset test are subject to the additional asset tests described below.

Second, the value of any one issuer's securities that we own may not exceed 5% of the value of our total assets.

Third, we may not own more than 10% of any one issuer's outstanding securities, as measured by either voting power or value. The 5% and 10% asset tests do not apply to securities of TRSs and qualified REIT subsidiaries and the 10% asset test does not apply to "straight debt" having specified characteristics and to certain other securities described below. Solely for purposes of the 10% asset test, the determination of our interest in the assets of a partnership or limited liability company in which we own an interest will be based on our proportionate interest in any securities issued by the partnership or limited liability company, excluding for this purpose certain securities described in the Code.

Fourth, the aggregate value of all securities of TRSs that we hold, together with other non-qualified assets (such as furniture and equipment or other tangible personal property, or non-real estate securities) may not, in the aggregate, exceed 25% of the value of our total assets.

Table of Contents

Notwithstanding the general rule, as noted above, that for purposes of the REIT income and asset tests we are treated as owning our proportionate share of the underlying assets of a subsidiary partnership, if we hold indebtedness issued by a partnership, the indebtedness will be subject to, and may cause a violation of, the asset tests unless the indebtedness is a qualifying mortgage asset or other conditions are met. Similarly, although stock of another REIT is a qualifying asset for purposes of the REIT asset tests, any non-mortgage debt that is issued by another REIT may not so qualify (although such debt will not be treated as "securities" for purposes of the 10% asset test, as explained below).

Certain securities will not cause a violation of the 10% asset test described above. Such securities include instruments that constitute "straight debt," which term generally excludes, among other things, securities having contingency features. A security does not qualify as "straight debt" where a REIT (or a controlled TRS of the REIT) owns other securities of the same issuer which do not qualify as straight debt, unless the value of those other securities constitute, in the aggregate, 1% or less of the total value of that issuer's outstanding securities. In addition to straight debt, the Code provides that certain other securities will not violate the 10% asset test. Such securities include (i) any loan made to an individual or an estate, (ii) certain rental agreements pursuant to which one or more payments are to be made in subsequent years (other than agreements between a REIT and certain persons related to the REIT under attribution rules), (iii) any obligation to pay rents from real property, (iv) securities issued by governmental entities that are not dependent in whole or in part on the profits of (or payments made by) a non-governmental entity, (v) any security (including debt securities) issued by another REIT and (vi) any debt instrument issued by a partnership if the partnership's income is of a nature that it would satisfy the 75% gross income test described above under "  Income Tests." In applying the 10% asset test, a debt security issued by a partnership is not taken into account to the extent, if any, of the REIT's proportionate interest in the equity and certain debt securities issued by that partnership.

A significant portion of the value of our properties is attributable to structural components related to the provision of electricity, heating ventilation and air conditioning, regulation of humidity, security and fire protection, and telecommunication infrastructure. We expect that our structural components will be treated as real property for purposes of the REIT asset tests, and we have received a private letter ruling from the IRS, subject to the terms and conditions contained therein, generally to that effect. If, however, any structural components not covered by the IRS ruling are subsequently determined not to constitute real property for purposes of the REIT asset tests, we could fail to satisfy such tests.

No independent appraisals have been obtained to support our conclusions as to the value of our total assets or the value of any particular security or securities. Moreover, the values of some assets may not be susceptible to a precise determination, and values are subject to change in the future. Furthermore, the proper classification of an instrument as debt or equity for U.S. federal income tax purposes may be uncertain in some circumstances, which could affect the application of the REIT asset requirements. Accordingly, there can be no assurance that the IRS will not contend that our interests in our subsidiaries or in the securities of other issuers will not cause a violation of the REIT asset tests.

However, certain relief provisions are available to allow REITs to satisfy the asset requirements or to maintain REIT qualification notwithstanding certain violations of the asset and other requirements. For example, if we should fail to satisfy the asset tests at the end of a calendar quarter such a failure would not cause us to lose our REIT qualification if we (i) satisfied the asset tests at the close of the preceding calendar quarter and (ii) the discrepancy between the value of our assets and the asset requirements was not wholly or partly caused by an acquisition of non-qualifying assets, but instead arose from changes in the relative market values of our assets. If the condition described in (ii) were not satisfied, we still could avoid disqualification by eliminating any discrepancy within 30 days after the close of the calendar quarter in which it arose or by making use of the relief provisions described above.

Table of Contents

In the case of *de minimis* violations of the 10% and 5% asset tests, a REIT may maintain its qualification despite a violation of such requirements if (i) the value of the assets causing the violation does not exceed the lesser of 1% of the REIT's total assets and $10,000,000 and (ii) the REIT either disposes of the assets causing the failure within six months after the last day of the quarter in which it identifies the failure, or the relevant tests are otherwise satisfied within that time frame.

Even if we did not qualify for the foregoing relief provisions, one additional provision allows a REIT which fails one or more of the asset requirements to nevertheless maintain its REIT qualification if (i) the REIT provides the IRS with a description of each asset causing the failure, (ii) the failure is due to reasonable cause and not willful neglect, (iii) the REIT pays a tax equal to the greater of (a) $50,000 per failure and (b) the product of the net income generated by the assets that caused the failure multiplied by the highest applicable corporate tax rate (currently 35%) and (iv) the REIT either disposes of the assets causing the failure within six months after the last day of the quarter in which it identifies the failure, or otherwise satisfies the relevant asset tests within that time frame.

***Annual Distribution Requirements***

In order to qualify as a REIT, we are required to distribute dividends, other than capital gain dividends, to our stockholders in an amount at least equal to:

(i) the sum of

(a) 90% of our REIT taxable income, computed without regard to our net capital gains and the deduction for dividends paid; and

(b) 90% of our after tax net income, if any, from foreclosure property (as described below); minus

(ii) the excess of the sum of specified items of non-cash income over 5% of our REIT taxable income, computed without regard to our net capital gains and the deduction for dividends paid.

We generally must make these distributions in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the year and if paid with or before the first regular dividend payment after such declaration. These distributions will be treated as received by our stockholders in the year in which paid. In order for distributions to be counted as satisfying the annual distribution requirements for REITs, and to provide us with a REIT-level tax deduction, the distributions must not be "preferential dividends." A dividend is not a preferential dividend if the distribution is (i) pro rata among all outstanding shares of stock within a particular class and (ii) in accordance with any preferences among different classes of stock as set forth in our organizational documents.

To the extent that we distribute at least 90%, but less than 100%, of our REIT taxable income, as adjusted, we will be subject to tax at ordinary corporate tax rates on the retained portion. We may elect to retain, rather than distribute, some or all of our net long-term capital gains and pay tax on such gains. In this case, we could elect for our stockholders to include their proportionate shares of such undistributed long-term capital gains in income, and to receive a corresponding credit for their share of the tax that we paid. Our stockholders would then increase the adjusted basis of their stock by the difference between (i) the amounts of capital gain dividends that we designated and that they include in their taxable income, minus (ii) the tax that we paid on their behalf with respect to that income.

To the extent that in the future we may have available net operating losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. Such losses, however, will generally not affect the tax treatment to our stockholders of any distributions that are actually made. See " Taxation of Stockholders Taxation of Taxable U.S. Stockholders Distributions."

Table of Contents

If we fail to distribute during each calendar year at least the sum of (i) 85% of our ordinary income for such year, (ii) 95% of our capital gain net income for such year and (iii) any undistributed net taxable income from prior periods, we will be subject to a non-deductible 4% excise tax on the excess of such required distribution over the sum of (a) the amounts actually distributed, plus (b) the amounts of income we retained and on which we have paid corporate income tax.

We expect that our REIT taxable income will be less than our cash flow because of depreciation and other non-cash charges included in computing REIT taxable income. Accordingly, we anticipate that we generally will have sufficient cash or liquid assets to enable us to satisfy the distribution requirements described above. However, from time to time, we may not have sufficient cash or other liquid assets to meet these distribution requirements due to timing differences between the actual receipt of income and actual payment of deductible expenses, and the inclusion of income and deduction of expenses in determining our taxable income. In addition, we may decide to retain our cash, rather than distribute it, in order to repay debt, acquire assets, or for other reasons. If these timing differences occur, we may borrow funds to pay dividends or pay dividends through the distribution of other property (including shares of our stock) in order to meet the distribution requirements, while preserving our cash.

If our taxable income for a particular year is subsequently determined to have been understated, we may be able to rectify a resultant failure to meet the distribution requirements for a year by paying "deficiency dividends" to stockholders in a later year, which may be included in our deduction for dividends paid for the earlier year. In this case, we may be able to avoid losing REIT qualification or being taxed on amounts distributed as deficiency dividends, subject to the 4% excise tax described above. We will be required to pay interest based on the amount of any deduction taken for deficiency dividends.

For purposes of the 90% distribution requirement and excise tax described above, any dividend that we declare in October, November or December of any year and that is payable to a stockholder of record on a specified date in any such month will be treated as both paid by us and received by the stockholder on December 31 of such year, provided that we actually pay the dividend before the end of January of the following calendar year.

***Prohibited Transactions***

Net income that we derive from a prohibited transaction is subject to a 100% tax. The term "prohibited transaction" generally includes a sale or other disposition of property (other than foreclosure property, as discussed below) that is held as inventory or primarily for sale to customers in the ordinary course of a trade or business. We intend to conduct our operations so that no asset that we own (or are treated as owning) will be treated as, or as having been, held as inventory or for sale to customers, and that a sale of any such asset will not be treated as having been in the ordinary course of our business. Whether property is held as inventory or "primarily for sale to customers in the ordinary course of a trade or business" depends on the particular facts and circumstances. No assurance can be given that any property that we sell will not be treated as inventory or property held for sale to customers, or that we can comply with certain safe-harbor provisions of the Code that would prevent such treatment. The 100% tax does not apply to gains from the sale of property that is held through a TRS or other taxable corporation, although such income will be subject to tax in the hands of the corporation at regular corporate rates. We intend to structure our activities to avoid prohibited transaction characterization.

***Like-Kind Exchanges***

We may dispose of properties in transactions intended to qualify as like-kind exchanges under the Code. Such like-kind exchanges are intended to result in the deferral of gain for U.S. federal income

Table of Contents

tax purposes. The failure of any such transaction to qualify as a like-kind exchange could require us to pay federal income tax, possibly including the 100% prohibited transaction tax, depending on the facts and circumstances surrounding the particular transaction.

***Derivatives and Hedging Transactions***

We may enter into hedging transactions with respect to interest rate exposure on one or more of our assets or liabilities. Any such hedging transactions could take a variety of forms, including the use of derivative instruments such as interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, and options. Except to the extent provided by Treasury regulations, any income from a hedging transaction we enter into (i) in the normal course of our business primarily to manage risk of interest rate changes or currency fluctuations with respect to borrowings made or to be made, or ordinary obligations incurred or to be incurred, to acquire or carry real estate assets, which is clearly identified as specified in Treasury regulations before the close of the day on which it was acquired, originated, or entered into, including gain from the sale or disposition of a position in such a transaction and (ii) primarily to manage risk of currency fluctuations with respect to any item of income or gain that would be qualifying income under the 75% or 95% income tests which is clearly identified as such before the close of the day on which it was acquired, originated, or entered into, will not constitute gross income for purposes of the 75% or 95% gross income test. To the extent that we enter into other types of hedging transactions, the income from those transactions is likely to be treated as non-qualifying income for purposes of both of the 75% and 95% gross income tests. Moreover, to the extent that a position in a hedging transaction has positive value at any particular point in time, it may be treated as an asset that does not qualify for purposes of the REIT asset tests. We intend to structure any hedging transactions in a manner that does not jeopardize our qualification as a REIT. We may conduct some or all of our hedging activities (including hedging activities relating to currency risk) through a TRS or other corporate entity, the income from which may be subject to U.S. federal income tax, rather than by participating in the arrangements directly or through pass-through subsidiaries. No assurance can be given, however, that our hedging activities will not give rise to income or assets that do not qualify for purposes of the REIT tests, or that our hedging activities will not adversely affect our ability to satisfy the REIT qualification requirements.

***Foreclosure Property***

Foreclosure property is real property and any personal property incident to such real property (i) that we acquire as the result of having bid in the property at foreclosure, or having otherwise reduced the property to ownership or possession by agreement or process of law, after a default (or upon imminent default) on a lease of the property or a mortgage loan held by us and secured by the property, (ii) for which we acquired the related loan or lease at a time when default was not imminent or anticipated and (iii) with respect to which we made a proper election to treat the property as foreclosure property. We generally will be subject to tax at the maximum corporate rate (currently 35%) on any net income from foreclosure property, including any gain from the disposition of the foreclosure property, other than income that would otherwise be qualifying income for purposes of the 75% gross income test. Any gain from the sale of property for which a foreclosure property election has been made will not be subject to the 100% tax on gains from prohibited transactions described above, even if the property would otherwise constitute inventory or dealer property. We do not anticipate receiving any income from foreclosure property that does not qualify for purposes of the 75% gross income test.

***Penalty Tax***

Any redetermined rents, redetermined deductions or excess interest we generate will be subject to a 100% penalty tax. In general, redetermined rents are rents from real property that are overstated as a

Table of Contents

result of any services furnished to any of our tenants by a TRS, and redetermined deductions and excess interest represent any amounts that are deducted by a TRS for amounts paid to us that are in excess of the amounts that would have been deducted based on arm's length negotiations. Rents that we receive will not constitute redetermined rents if they qualify for certain safe harbor provisions contained in the Code.

From time to time, our TRS may provide services to our tenants. We intend to set the fees paid to our TRS for such services at arm's length rates, although the fees paid may not satisfy the safe-harbor provisions described above. These determinations are inherently factual, and the IRS has broad discretion to assert that amounts paid between related parties should be reallocated to clearly reflect their respective incomes. If the IRS successfully made such an assertion, we would be required to pay a 100% penalty tax on the excess of an arm's length fee for tenant services over the amount actually paid.

***Failure to Qualify***

If we fail to satisfy one or more requirements for REIT qualification other than the income or asset tests, we could avoid disqualification as a REIT if our failure is due to reasonable cause and not to willful neglect and we pay a penalty of $50,000 for each such failure. Relief provisions are also available for failures of the income tests and asset tests, as described above in " Income Tests" and " Asset Tests."

If we fail to qualify for taxation as a REIT in any taxable year, and the relief provisions described above do not apply, we would be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. We cannot deduct distributions to stockholders in any year in which we are not a REIT, nor would we be required to make distributions in such a year. In this situation, to the extent of current and accumulated earnings and profits, distributions to stockholders would be taxable as regular corporate dividends. Such dividends paid to U.S. stockholders that are individuals, trusts and estates may be taxable at the preferential income tax rates (i.e., the 20% maximum U.S. federal rate) for qualified dividends. In addition, subject to the limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless we are entitled to relief under specific statutory provisions, we would also be disqualified from re-electing to be taxed as a REIT for the four taxable years following the year during which we lost our qualification. It is not possible to state whether, in all circumstances, we would be entitled to this statutory relief.

**Tax Aspects of Our Operating Partnership and any Subsidiary Partnerships**

*General.* All of our investments will be held through our operating partnership. In addition, our operating partnership may hold certain of its investments indirectly through subsidiary partnerships and limited liability companies which we expect will be treated as partnerships or disregarded entities for U.S. federal income tax purposes. In general, entities that are treated as partnerships or disregarded entities for U.S. federal income tax purposes are "pass-through" entities which are not required to pay federal income tax. Rather, partners or members of such entities are allocated their shares of the items of income, gain, loss, deduction and credit of the partnership or limited liability company, and are potentially required to pay tax on this income, without regard to whether they receive a distribution from the partnership or limited liability company. We will include in our income our share of these partnership and limited liability company items for purposes of the various gross income tests, the computation of our REIT taxable income, and the REIT distribution requirements. Moreover, for purposes of the asset tests, we will include our pro rata share of assets held by our operating partnership, including its share of its subsidiary partnerships and limited liability companies, based on our capital interest in each such entity. See " Taxation of CyrusOne Inc."

Table of Contents

*Entity Classification.* Our interests in our operating partnership and the subsidiary partnerships and limited liability companies involve special tax considerations, including the possibility that the IRS might challenge the status of these entities as partnerships (or disregarded entities), as opposed to associations taxable as corporations for U.S. federal income tax purposes. If our operating partnership or a subsidiary partnership or limited liability company were treated as an association, it would be taxable as a corporation and would be required to pay an entity-level tax on its income. In this situation, the character of our assets and items of gross income would change and could prevent us from satisfying the REIT asset tests and possibly the REIT income tests. See " Taxation of CyrusOne Inc. Asset Tests" and " Income Tests." This, in turn, could prevent us from qualifying as a REIT. See " Failure to Qualify" for a discussion of the effect of our failure to meet these tests. In addition, a change in the tax status of our operating partnership, a subsidiary partnership or limited liability company might be treated as a taxable event. If so, we might incur a tax liability without any related cash distributions. We believe that our operating partnership and each of our other partnerships and limited liability companies will be classified as partnerships or disregarded entities for U.S. federal income tax purposes.

*Allocations of Income, Gain, Loss and Deduction.* A partnership agreement (or, in the case of a limited liability company treated as a partnership for U.S. federal income tax purposes, the limited liability company agreement) will generally determine the allocation of partnership income and loss among partners. Generally, Section 704(b) of the Code and the Treasury regulations thereunder require that partnership allocations respect the economic arrangement of the partners. If an allocation of partnership income or loss does not comply with the requirements of Section 704(b) of the Code and the Treasury regulations thereunder, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership. This reallocation will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. Our operating partnership's allocations of taxable income and loss are intended to comply with the requirements of Section 704(b) of the Code and the Treasury regulations thereunder.

*Tax Allocations with Respect to the Properties.* Under Section 704(c) of the Code, income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership (including a limited liability company treated as a partnership for U.S. federal income tax purposes) in exchange for an interest in the partnership, must be allocated in a manner so that the contributing partner is charged with the unrealized gain or benefits from the unrealized loss associated with the property at the time of the contribution, as adjusted from time to time. The amount of the unrealized gain or unrealized loss generally is equal to the difference between the fair market value or book value and the adjusted tax basis of the contributed property at the time of contribution (this difference is referred to as a book-tax difference), as adjusted from time to time. These allocations are solely for U.S. federal income tax purposes and do not affect the book capital accounts or other economic or legal arrangements among the partners.

Appreciated property was contributed to our operating partnership in exchange for interests in our operating partnership in connection with the formation transactions. The partnership agreement requires that allocations be made in a manner consistent with Section 704(c) of the Code. Treasury regulations issued under Section 704(c) of the Code provide partnerships with a choice of several methods of accounting for such book-tax differences. We and our operating partnership have agreed to use a permissible method for accounting for book-tax differences for the properties initially contributed to our operating partnership. See " Taxation of CyrusOne Inc. Requirements for Qualification General" and " Annual Distribution Requirements."

Any property acquired by our operating partnership in a taxable transaction will initially have a tax basis equal to its fair market value, and Section 704(c) of the Code will not apply.

Table of Contents

**Taxation of Stockholders**

***Taxation of Taxable U.S. Stockholders***

The following is a summary of certain U.S. federal income tax consequences of the ownership and disposition of our stock applicable to taxable U.S. stockholders. A "U.S. stockholder" is any holder of our common stock that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation (or entity treated as a corporation for U.S. federal income tax purposes) created or organized in the United States or under the laws of the United States, or of any state thereof, or the District of Columbia;
- an estate, the income of which is includable in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust if a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. fiduciaries have the authority to control all substantial decisions of the trust.

If a partnership, including for this purpose any entity that is treated as a partnership for U.S. federal income tax purposes, holds our common stock, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. An investor that is a partnership and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of the acquisition, ownership and disposition of our common stock.

*Distributions.* So long as we qualify as a REIT, the distributions that we make to our taxable U.S. stockholders out of current or accumulated earnings and profits that we do not designate as capital gain dividends will generally be taken into account by such stockholders as ordinary income and will not be eligible for the dividends received deduction for corporations. With limited exceptions, our dividends are not eligible for taxation at the preferential income tax rates (i.e., the 20% maximum U.S. federal rate) for qualified dividends received by most U.S. stockholders that are individuals, trusts and estates from taxable C corporations. Such stockholders, however, are taxed at the preferential rates on dividends designated by and received from REITs to the extent that the dividends are attributable to:

- income retained by the REIT in the prior taxable year on which the REIT was subject to corporate level income tax (less the amount of tax);
- dividends received by the REIT from TRSs or other taxable C corporations; or
- income in the prior taxable year from the sales of "built-in gain" property acquired by the REIT from C corporations in carryover basis transactions (less the amount of corporate tax on such income).

Distributions that we designate as capital gain dividends will generally be taxed to our U.S. stockholders as long-term capital gains, to the extent that such distributions do not exceed our actual net capital gain for the taxable year, without regard to the period for which the stockholder that receives such distribution has held its stock. We may elect to retain and pay taxes on some or all of our net long-term capital gains, in which case we may elect to apply provisions of the Code, which treat our U.S. stockholders as having received, solely for tax purposes, our undistributed capital gains, and the stockholders as receiving a corresponding credit for taxes that we paid on such undistributed capital gains. See "Taxation of CyrusOne Inc.  Annual Distribution Requirements." Corporate stockholders may be required to treat up to 20% of some capital gain dividends as ordinary income. Long-term capital gains are generally taxable at maximum U.S. federal rates of 20% in the case of U.S. stockholders that are individuals, trusts and estates, and 35% in the case of U.S. stockholders that are

Table of Contents

corporations. Capital gains attributable to the sale of depreciable real property held for more than 12 months are subject to a 25% maximum U.S. federal income tax rate for taxpayers who are taxed as individuals, to the extent of previously claimed depreciation deductions.

Distributions in excess of our current and accumulated earnings and profits will generally represent a return of capital and will not be taxable to a stockholder to the extent that the amount of such distributions does not exceed the adjusted basis of the stockholder's shares in respect of which the distributions were made. Rather, the distribution will reduce the adjusted basis of the stockholder's shares. To the extent that such distributions exceed the adjusted basis of a stockholder's shares, the stockholder generally must include such distributions in income as long-term capital gain if the shares have been held for more than one year, or short-term capital gain if the shares have been held for one year or less. In addition, any dividend that we declare in October, November or December of any year and that is payable to a stockholder of record on a specified date in any such month will be treated as both paid by us and received by the stockholder on December 31 of such year, provided that we actually pay the dividend before the end of January of the following calendar year.

To the extent that we have available net operating losses and capital losses carried forward from prior tax years, such losses may reduce the amount of distributions that we must make in order to comply with the REIT distribution requirements. See "Taxation of CyrusOne Inc. Annual Distribution Requirements." Such losses, however, are not passed through to stockholders and do not offset income of stockholders from other sources, nor would such losses affect the character of any distributions that we make, which are generally subject to tax in the hands of stockholders to the extent that we have current or accumulated earnings and profits.

*Dispositions of Our Stock.* If a U.S. stockholder sells or disposes of shares of our stock, it will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount of cash and the fair market value of any property received on the sale or other disposition and the stockholder's adjusted tax basis in the shares of stock. In general, capital gains recognized by individuals, trusts and estates upon the sale or disposition of our stock will be subject to a maximum U.S. federal income tax rate of 20% if the stock is held for more than one year, and will be taxed at ordinary income rates (of up to 39.6%) if the stock is held for one year or less. Gains recognized by stockholders that are corporations are subject to U.S. federal income tax at a maximum rate of 35%, whether or not such gains are classified as long-term capital gains. Capital losses recognized by a stockholder upon the disposition of our stock that was held for more than one year at the time of disposition will be considered long-term capital losses, and are generally available only to offset capital gain income of the stockholder but not ordinary income (except in the case of individuals, who may also offset up to $3,000 of ordinary income each year). In addition, any loss upon a sale or exchange of shares of our stock by a stockholder who has held the shares for six months or less, after applying holding period rules, will be treated as a long-term capital loss to the extent of actual or deemed distributions that we make that are required to be treated by the stockholder as long-term capital gain.

If an investor recognizes a loss upon a subsequent disposition of our stock or other securities in an amount that exceeds a prescribed threshold, it is possible that the provisions of Treasury regulations involving "reportable transactions" could apply, with a resulting requirement to separately disclose the loss-generating transaction to the IRS. These regulations, though directed towards "tax shelters," are broadly written and apply to transactions that would not typically be considered tax shelters. The Code imposes significant penalties for failure to comply with these requirements. You should consult your tax advisor concerning any possible disclosure obligation with respect to the receipt or disposition of our stock or securities or transactions that we might undertake directly or indirectly. Moreover, you should be aware that we and other participants in the transactions in which we are involved (including their advisors) might be subject to disclosure or other requirements pursuant to these regulations.

Table of Contents

*Passive Activity Losses and Investment Interest Limitations.* Distributions that we make and gains arising from the sale or exchange by a U.S. stockholder of our stock will not be treated as passive activity income. As a result, stockholders will not be able to apply any "passive losses" against income or gain relating to our stock. To the extent that distributions we make do not constitute a return of capital, they will be treated as investment income for purposes of computing the investment interest limitation.

***Taxation of Non-U.S. Stockholders***

The following is a summary of certain U.S. federal income and estate tax consequences of the ownership and disposition of our stock applicable to non-U.S. stockholders. A "non-U.S. stockholder" is any holder of our common stock other than a partnership or U.S. stockholder.

*Ordinary Dividends.* The portion of dividends received by non-U.S. stockholders that (i) is payable out of our earnings and profits, (ii) is not attributable to capital gains that we recognize and (iii) is not effectively connected with a U.S. trade or business of the non-U.S. stockholder, will be subject to U.S. withholding tax at the rate of 30%, unless reduced or eliminated by treaty.

In general, non-U.S. stockholders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our stock. In cases where the dividend income from a non-U.S. stockholder's investment in our stock is, or is treated as, effectively connected with the non-U.S. stockholder's conduct of a U.S. trade or business, the non-U.S. stockholder generally will be subject to U.S. federal income tax at graduated rates, in the same manner as U.S. stockholders are taxed with respect to such dividends. Such effectively connected income must generally be reported on a U.S. income tax return filed by or on behalf of the non-U.S. stockholder. The income may also be subject to a branch profits tax at the rate of 30% (unless reduced or eliminated by treaty) in the case of a non-U.S. stockholder that is a corporation.

*Non-Dividend Distributions.* Unless our stock constitutes a U.S. real property interest ("USRPI"), distributions that we make which are not dividends out of our earnings and profits will not be subject to U.S. income tax. If we cannot determine at the time a distribution is made whether or not the distribution will exceed current and accumulated earnings and profits, the distribution will be subject to withholding at the rate applicable to dividends. The non-U.S. stockholder may seek a refund from the IRS of any amounts withheld if it is subsequently determined that the distribution was, in fact, in excess of our current and accumulated earnings and profits. If our stock constitutes a USRPI, as described below, distributions that we make in excess of the sum of (i) the stockholder's proportionate share of our earnings and profits, plus (ii) the stockholder's basis in its stock, will be taxed under the Foreign Investment in Real Property Tax Act of 1980 ("FIRPTA"), at the rate of tax, including any applicable capital gains rates, that would apply to a U.S. stockholder of the same type (e.g., an individual or a corporation, as the case may be), and the collection of the tax will be enforced by a withholding at a rate of 10% of the amount by which the distribution exceeds the stockholder's share of our earnings and profits.

*Capital Gain Dividends.* Under FIRPTA, a distribution that we make to a non-U.S. stockholder, to the extent attributable to gains from dispositions of USRPIs that we held directly or through pass-through subsidiaries, or USRPI capital gains, will, except as described below, be considered effectively connected with a U.S. trade or business of the non-U.S. stockholder and will be subject to U.S. income tax at the rates applicable to U.S. individuals or corporations, without regard to whether we designate the distribution as a capital gain dividend. See above under " Taxation of Non-U.S. Stockholders Ordinary Dividends," for a discussion of the consequences of income that is effectively connected with a U.S. trade or business. In addition, we will be required to withhold tax equal to 35% of the maximum amount that could have been designated as USRPI capital gains dividends. Distributions subject to FIRPTA may also be subject to a branch profits tax at the rate of 30% (unless

Table of Contents

reduced or eliminated by treaty) in the hands of a non-U.S. stockholder that is a corporation. A distribution is not attributable to USRPI capital gain if we held an interest in the underlying asset solely as a creditor. Capital gain dividends received by a non-U.S. stockholder that are attributable to dispositions of our assets other than USRPIs are not subject to U.S. federal income or withholding tax, unless (i) the gain is effectively connected with the non-U.S. stockholder's U.S. trade or business, in which case the non-U.S. stockholder would be subject to the same treatment as U.S. stockholders with respect to such gain, except that a non-U.S. stockholder that is a corporation may also be subject to a branch profits tax at the rate of 30% (unless reduced or eliminated by treaty), or (ii) the non-U.S. stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, in which case the non-U.S. stockholder will incur a 30% tax on his capital gains. We expect that a significant portion of our assets will be USRPIs.

A capital gain dividend that would otherwise have been treated as a USRPI capital gain will not be so treated or be subject to FIRPTA, and generally will not be treated as income that is effectively connected with a U.S. trade or business, and instead will be treated in the same manner as an ordinary dividend (see " Taxation of Non-U.S. Stockholders Ordinary Dividends"), if (i) the capital gain dividend is received with respect to a class of stock that is regularly traded on an established securities market located in the United States and (ii) the recipient non-U.S. stockholder does not own more than 5% of that class of stock at any time during the year ending on the date on which the capital gain dividend is received. We anticipate that our common stock will be "regularly traded" on an established securities exchange.

*Dispositions of Our Stock.* Unless our stock constitutes a USRPI, a sale of our stock by a non-U.S. stockholder generally will not be subject to U.S. taxation under FIRPTA. Subject to certain exceptions discussed below, our stock will be treated as a USRPI if 50% or more of our assets throughout a prescribed testing period consist of interests in real property located within the United States, excluding, for this purpose, interests in real property solely in a capacity as a creditor. We expect that 50% or more of our assets will consist of USRPIs.

Even if the foregoing 50% test is met, however, our stock will not constitute a USRPI if we are a "domestically controlled qualified investment entity." A domestically controlled qualified investment entity includes a REIT, less than 50% of value of which is held, directly or indirectly, by non-U.S. stockholders at all times during a specified testing period. As described above, our charter contains restrictions designed to protect our status as a "domestically controlled qualified investment entity," and we believe that we will be and will remain a domestically controlled qualified investment entity, and that a sale of our stock should not be subject to taxation under FIRPTA. However, no assurance can be given that we will be or will remain a domestically controlled qualified investment entity.

In the event that we are not a domestically controlled qualified investment entity, but our stock is "regularly traded," as defined by applicable Treasury regulations, on an established securities market, a non-U.S. stockholder's sale of our common stock nonetheless also would not be subject to tax under FIRPTA as a sale of a USRPI, provided that the participating non-U.S. holder held 5% or less of our outstanding shares of our common stock any time during a prescribed testing period. We expect that our common stock will be regularly traded on an established securities market.

If gain on the sale of our stock were subject to taxation under FIRPTA, the non-U.S. stockholder would be required to file a U.S. federal income tax return and would be subject to the same treatment as a U.S. stockholder with respect to such gain, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of non-resident alien individuals. Moreover, in order to enforce the collection of the tax, the purchaser of the stock could be required to withhold 10% of the purchase price and remit such amount to the IRS.

Table of Contents

Gain from the sale of our stock that would not otherwise be subject to FIRPTA will nonetheless be taxable in the United States to a non-U.S. stockholder in two cases: (i) if the non-U.S. stockholder's investment in our stock is effectively connected with a U.S. trade or business conducted by such non-U.S. stockholder, the non-U.S. stockholder will be subject to the same treatment as a U.S. stockholder with respect to such gain, except that a non-U.S. stockholder that is a corporation may also be subject to a branch profits tax at a rate of 30% (unless reduced or eliminated by treaty), or (ii) if the non-U.S. stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, the nonresident alien individual will be subject to a 30% tax on the individual's capital gain. In addition, even if we are a domestically controlled qualified investment entity, upon disposition of our stock (subject to the 5% exception applicable to "regularly traded" stock described above), a non-U.S. stockholder may be treated as having gain from the sale or exchange of a USRPI if the non-U.S. stockholder (a) disposes of our common stock within a 30-day period preceding the ex-dividend date of a distribution, any portion of which, but for the disposition, would have been treated as gain from the sale or exchange of a USRPI and (b) acquires, or enters into a contract or option to acquire, other shares of our common stock within 30 days after such ex-dividend date.

*Estate tax.* If our stock is owned or treated as owned by an individual who is not a citizen or resident (as specially defined for U.S. federal estate tax purposes) of the United States at the time of such individual's death, the stock will be includable in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax treaty provides otherwise, and may therefore be subject to U.S. federal estate tax.

**Non-U.S. stockholders are urged to consult their tax advisors regarding the U.S. federal, state, local and foreign income and other tax consequences of owning our stock.**

***Taxation of Tax-Exempt Stockholders***

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt from U.S. federal income taxation. However, they may be subject to taxation on their unrelated business taxable income ("UBTI"). While some investments in real estate may generate UBTI, the IRS has ruled that dividend distributions from a REIT to a tax-exempt entity do not constitute UBTI. Based on that ruling, and provided that (i) a tax-exempt stockholder has not held our stock as "debt financed property" within the meaning of the Code (i.e., where the acquisition or holding of the property is financed through a borrowing by the tax-exempt stockholder) and (ii) our stock is not otherwise used in an unrelated trade or business, distributions that we make and income from the sale of our stock generally should not give rise to UBTI to a tax-exempt stockholder.

Tax-exempt stockholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from U.S. federal income taxation under sections 501(c)(7), (c)(9), (c)(17) and (c)(20) of the Code are subject to different UBTI rules, which generally require such stockholders to characterize distributions that we make as UBTI.

In certain circumstances, a pension trust that owns more than 10% of our stock could be required to treat a percentage of any dividends received from us as UBTI if we are a "pension-held REIT." We will not be a pension-held REIT unless (i) we are required to "look through" one or more of our pension trust stockholders in order to satisfy the REIT "closely-held" test and (ii) either (a) one pension trust owns more than 25% of the value of our stock or (b) one or more pension trusts, each individually holding more than 10% of the value of our stock, collectively own more than 50% of the value of our stock. Certain restrictions on ownership and transfer of our stock generally should prevent

Table of Contents

a tax-exempt entity from owning more than 10% of the value of our stock and generally should prevent us from becoming a pension-held REIT.

**Tax-exempt stockholders are urged to consult their tax advisors regarding the U.S. federal, state, local and foreign income and other tax consequences of owning our stock.**

**Other Tax Considerations**

***Legislative or Other Actions Affecting REITs***

The present U.S. federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time. The REIT rules are constantly under review by persons involved in the legislative process and by the IRS and the Treasury, which may result in statutory changes as well as revisions to regulations and interpretations. Changes to the U.S. federal tax laws and interpretations thereof could adversely affect an investment in our common stock.

***Medicare 3.8% Tax on Investment Income***

Certain U.S. stockholders who are individuals, estates or trusts and whose income exceeds certain thresholds are required to pay a 3.8% Medicare tax on dividends and certain other investment income, including capital gains from the sale or other disposition of our common stock.

***Foreign Account Tax Compliance Act***

Legislation enacted in 2010 and existing guidance issued thereunder will require, after June 30, 2014, withholding at a rate of 30% on dividends in respect of, and, after December 31, 2016, gross proceeds from the sale of, our common stock held by or through certain foreign financial institutions (including investment funds), unless such institution enters into an agreement with the Treasury to report, on an annual basis, information with respect to shares in the institution held by certain U.S. persons and by certain non-U.S. entities that are wholly or partially owned by U.S. persons and to withhold on certain payments. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury regulations or other guidance may modify these requirements. Accordingly, the entity through which our common stock is held will affect the determination of whether such withholding is required. Similarly, dividends in respect of, and gross proceeds from the sale of, our common stock held by an investor that is a non-financial non-U.S. entity which does not qualify under certain exemptions will be subject to withholding at a rate of 30%, unless such entity either (i) certifies to us that such entity does not have any "substantial United States owners" or (ii) provides certain information regarding the entity's "substantial United States owners," which we will in turn provide to the Secretary of the Treasury. An intergovernmental agreement between the United States and an applicable foreign country, or future Treasury regulations or other guidance, may modify these requirements. We will not pay any additional amounts to stockholders in respect of any amounts withheld. Non-U.S. stockholders are encouraged to consult their tax advisors regarding the possible implications of the legislation on their investment in our common stock.

***State, Local and Foreign Taxes***

We and our subsidiaries and stockholders may be subject to state, local or foreign taxation in various jurisdictions including those in which we or they transact business, own property or reside. Our state, local or foreign tax treatment and that of our stockholders may not conform to the U.S. federal income tax treatment discussed above. Any foreign taxes that we incur do not pass through to stockholders as a credit against their U.S. federal income tax liability. Prospective investors should consult their tax advisors regarding the application and effect of state, local and foreign income and other tax laws on an investment in our stock.

Table of Contents

## LEGAL MATTERS

Certain legal matters will be passed upon for us by Cravath, Swaine & Moore LLP and Skadden, Arps, Slate, Meagher & Flom LLP. Venable LLP will issue an opinion to us regarding certain matters of Maryland law, including the validity of the shares of our common stock offered hereby.

## EXPERTS

The consolidated and combined financial statements, and the related financial statement schedules of CyrusOne Inc. and subsidiaries (the "Company"), incorporated in this Prospectus by reference from the Company's Annual Report on Form 10-K have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report (which report expresses an unqualified opinion and includes an explanatory paragraph regarding the allocation of corporate costs from Cincinnati Bell Inc. for specified periods and the basis of presentation), which is incorporated herein by reference. Such financial statements and financial statement schedules have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.