WASHINGTON REAL ESTATE INVESTMENT TRUST
Form 10-Q
November 10, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

OR

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

For the quarterly period ended September 30, 2008

Commission File Number: 1-6622

WASHINGTON REAL ESTATE INVESTMENT TRUST

(Exact name of registrant as specified in its charter)

MARYLAND	**53-0261100**
(State or other jurisdiction of	**(IRS Employer**
incorporation or organization)	**Identification Number)**
6110 EXECUTIVE BOULEVARD, SUITE 800,	
ROCKVILLE, MARYLAND	**20852**
(Address of principal executive office)	**(Zip code)**

Registrant s telephone number, including area code (301) 984-9400

(Former name, former address and former fiscal year, if changed since last report)

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 twelve (12) months (or such shorter period that the Registrant was required to file such report) and (2) has been subject to such filing requirements for the past ninety (90) days. YES x 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 definition of large accelerated filer, accelerated filer or smaller reporting company in Rule 12b-2 of the Exchange Act). (Check One):

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨ Smaller Reporting Company ¨

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

Number of shares outstanding of common stock, as of November 6, 2008: 52,389,115

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PART I

FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

The information furnished in the accompanying unaudited Consolidated Balance Sheets, Statements of Income, Statements of Cash Flows and Statement of Changes in Shareholders Equity reflects all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The accompanying financial statements and notes thereto should be read in conjunction with the financial statements and notes for the three years ended December 31, 2007 included in the Trust s 2007 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

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ITEM I. FINANCIAL STATEMENTS

WASHINGTON REAL ESTATE INVESTMENT TRUST

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	(Unaudited) September 30, 2008	December 31, 2007
Assets		
Land	$ 368,371	$ 325,490
Income producing property	1,751,057	1,621,679
	2,119,428	1,947,169
Accumulated depreciation and amortization	(382,261)	(327,759)
Net income producing property	1,737,167	1,619,410
Development in progress	23,469	98,321
Total real estate held for investment, net	1,760,636	1,717,731
Investment in real estate held for sale, net	12,546	36,562
Cash and cash equivalents	7,813	21,485
Restricted cash	47,074	6,030
Rents and other receivables, net of allowance for doubtful accounts of $5,943 and $4,196, respectively	38,121	36,548
Prepaid expenses and other assets	104,291	78,394
Other assets related to properties held for sale	211	1,576
Total assets	$ 1,970,692	$ 1,898,326
Liabilities		
Notes payable	$ 918,873	$ 879,123
Mortgage notes payable	330,569	252,484
Lines of credit	47,000	192,500
Accounts payable and other liabilities	65,724	63,327
Advance rents	9,291	9,537
Tenant security deposits	10,209	10,419
Other liabilities related to properties held for sale	137	616
Total liabilities	1,381,803	1,408,006
Minority interest	3,790	3,776
Shareholders equity		
Shares of beneficial interest; $0.01 par value; 100,000 shares authorized: 50,661 and 46,682 shares issued and outstanding	508	468
Additional paid-in capital	696,885	561,492
Distributions in excess of net income	(112,570)	(75,416)
Accumulated other comprehensive income	276	
Total shareholders equity	585,099	486,544

Total liabilities and shareholders equity	$ 1,970,692	$ 1,898,326

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

(UNAUDITED)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenue				
Real estate rental revenue	$ 70,639	$ 64,286	$ 209,227	$ 185,931
Expenses				
Real estate expenses	24,031	20,021	69,101	57,526
Depreciation and amortization	21,422	17,852	62,799	50,310
General and administrative	2,780	3,174	8,971	11,424
	48,233	41,047	140,871	119,260
Real estate operating income	22,406	23,239	68,356	66,671
Other income (expense)				
Interest expense	(17,148)	(15,824)	(52,395)	(45,498)
Other income	338	357	796	1,395
Loss on extinguishment of debt			(8,449)	
Gain from non-disposal activities	17		17	1,303
	(16,793)	(15,467)	(60,031)	(42,800)
Income from continuing operations	5,613	7,772	8,325	23,871
Discontinued operations:				
Gain on sale of real estate		25,022	15,275	25,022
Income from operations of properties held for sale	266	1,596	1,999	4,546
Net income	$ 5,879	$ 34,390	$ 25,599	$ 53,439
Basic net income per share				
Continuing operations	$ 0.11	$ 0.17	$ 0.17	$ 0.52
Discontinued operations	0.01	0.57	0.36	0.65
Basic net income per share	$ 0.12	$ 0.74	$ 0.53	$ 1.17
Diluted net income per share				
Continuing operations	$ 0.11	$ 0.17	$ 0.17	$ 0.52
Discontinued operations	0.01	0.56	0.36	0.64
Diluted net income per share	$ 0.12	$ 0.73	$ 0.53	$ 1.16
Weighted average shares outstanding basic	49,599	46,596	48,057	45,678
Weighted average shares outstanding diluted	49,849	46,802	48,298	45,877
Dividends declared and paid per share	$ 0.4325	$ 0.4225	$ 1.2875	$ 1.2575

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(In thousands)

(UNAUDITED)

	Shares	Shares of Beneficial Interest at Par Value	Additional Paid in Capital	Distributions In Excess of Net Income	Accumulated Other Comprehensive Income	Shareholders Equity
Balance, December 31, 2007	46,682	$ 468	$ 561,492	$ (75,416)	$	$ 486,544
Comprehensive income:						
Net income				25,599		25,599
Change in fair value of interest rate hedge					276	276
Total comprehensive income						25,875
Dividends				(62,753)		(62,753)
Equity offerings	3,741	37	127,322			127,359
Shares issued under Dividend Reinvestment Program	118	1	3,900			3,901
Share options exercised	120	1	2,642			2,643
Share grants, net of share grant amortization and forfeitures		1	1,529			1,530
Balance, September 30, 2008	50,661	$ 508	$ 696,885	$ (112,570)	$ 276	$ 585,099

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(UNAUDITED)

	Nine Months Ended September 30, 2008	2007
Cash flows from operating activities		
Net income	$ 25,599	$ 53,439
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including amounts in discontinued operations	63,268	51,940
Provision for losses on accounts receivable	2,647	1,720
Amortization of share grants	1,659	1,961
Gain on sale of real estate	(15,275)	(25,022)
Loss on extinguishment of debt	8,449	
Changes in operating other assets	(24,212)	(12,585)
Changes in operating other liabilities	9,001	15,879
Net cash provided by operating activities	71,136	87,332
Cash flows from investing activities		
Real estate acquisitions, net	(76,002)	(219,353)
Net cash received for sale of real estate	40,231	56,344
Restricted cash tax free exchange escrow	(40,231)	(40,110)
Capital improvements to real estate	(26,866)	(29,469)
Development in progress	(14,727)	(53,297)
Non-real estate capital improvements	(612)	(2,912)
Net cash used in investing activities	(118,207)	(288,797)
Cash flows from financing activities		
Line of credit borrowings	58,000	194,200
Line of credit repayments	(203,500)	(126,700)
Dividends paid	(62,753)	(58,211)
Proceeds from equity offerings under Dividend Reinvestment Program	3,901	
Proceeds from mortgage notes payable	81,029	
Principal payments mortgage notes payable	(2,944)	(10,371)
Proceeds from debt offering	100,115	150,839
Financing costs	(1,639)	(5,117)
Net proceeds from equity offerings	127,359	57,761
Note repayments	(60,366)	
Loss on extinguishment of debt	(8,449)	
Net proceeds from the exercise of share options	2,643	262
Net cash provided by (used in) financing activities	33,396	202,663
Net increase (decrease) in cash and cash equivalents	(13,675)	1,198
Cash and cash equivalents, beginning of period	21,488	8,721
Cash and cash equivalents, end of period	$ 7,813	$ 9,919
Supplemental disclosure of cash flow information:		

Cash paid for interest, net of amounts capitalized	$	52,584	$	43,413

See accompanying notes to the financial statements.

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WASHINGTON REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

(UNAUDITED)

NOTE 1: NATURE OF BUSINESS

Washington Real Estate Investment Trust (WRIT, the Company or the Trust), a Maryland Real Estate Investment Trust, is a self-administered, self-managed equity real estate investment trust, successor to a trust organized in 1960. Our business consists of the ownership and development of income-producing real estate properties in the greater Washington metro region. We own a diversified portfolio of office buildings, medical office buildings, industrial/flex centers, multifamily properties and retail centers.

Federal Income Taxes

We believe that we qualify as a Real Estate Investment Trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute at least 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (i) reinvesting the sale price of properties sold, allowing for a deferral of income taxes on the sale, (ii) paying out capital gains to the shareholders with no tax to the company or (iii) treating the capital gains as having been distributed to the shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the shareholders. In June 2008, two industrial properties, Sullyfield Center and The Earhart Building, were sold for a gain of $15.3 million. The proceeds from the sale are expected to be reinvested in a replacement property.

NOTE 2: ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although we believe that the disclosures made are adequate to make the information presented not misleading. In addition, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for the periods presented have been included. These unaudited financial statements should be read in conjunction with the financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Within these notes to the financial statements, we refer to the three and nine months ended September 30, 2008 as the 2008 Quarter and the 2008 Period , respectively, and the three and nine months ended September 30, 2007 as the 2007 Quarter and the 2007 Period , respectively.

New Accounting Pronouncements

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. On February 12, 2007, the FASB issued FASB Staff Position No. FAS 157-2, *Effective Date of FASB Statement No. 157* (the FSP). The FSP amends SFAS No. 157 to delay the effective date for all non-financial assets and non-financial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis (i.e. at least annually). The FSP defers the effective date of SFAS No. 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of the proposed FSP. The effective date of the statement related to those items not covered by the deferral (all financial assets and liabilities or non-financial assets and liabilities recorded at fair value on a recurring basis) is for fiscal years beginning after November 15, 2007. We do not have significant assets or liabilities recorded at fair value on a recurring basis, and therefore the adoption of this statement on January 1, 2008 did not have a material impact on our financial statements. However, this statement requires us to provide expanded disclosures of our valuation techniques.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. SFAS No. 159 permits entities to choose to measure eligible items at fair value at specified election dates and report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We have not elected the fair value option for any assets or liabilities, and therefore the adoption of the statement did not have a material impact on our financial statements.

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SEPTEMBER 30, 2008

(UNAUDITED)

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*, a revision of SFAS No. 141. This statement changes the accounting for acquisitions by specifically eliminating the step acquisition model, changing the recognition of contingent consideration from being recognized when it is probable to being recognized at the time of acquisition, disallowing the capitalization of transaction costs, and delaying when restructuring related to acquisitions can be recognized. The standard is effective for fiscal years beginning after December 15, 2008, and will only impact the accounting for acquisitions we make after our adoption. We are currently evaluating the impact of this pronouncement on our financial statements. We currently expect the most significant impact of this statement to be the treatment of transaction costs, which will be expensed as a period cost upon adoption of the statement.

Also in December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which clarifies the classification of noncontrolling interests in consolidated statements of financial position and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests. Under the new standard noncontrolling interests are considered equity and should be reported as an element of consolidated equity. Net income will encompass the total income of all consolidated subsidiaries and there will be a separate disclosure on the face of the income statement of the attribution of that income between the controlling and noncontrolling interests. Increases and decreases in the noncontrolling ownership interest amount will be accounted for as equity transactions. The standard is effective for fiscal years beginning after December 15, 2008. The statement will require us to change the presentation of minority interests on our financial statements.

In March 2008 the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133* (FAS 161). This statement requires entities to provide greater transparency about how and why an entity uses derivative instruments, and how derivative instruments and related hedged items affect an entity s financial position, results of operations, and cash flows. To meet these objectives, FAS 161 requires (1) qualitative disclosures about objectives for using derivatives by primary underlying risk exposure and by purpose or strategy, (2) information about the volume of derivative activity, (3) tabular disclosures about balance sheet location and gross fair value amounts of derivative instruments, income statement and other comprehensive income location and amounts of gains and losses on derivative instruments by type of contract, and (4) disclosures about credit risk-related contingent features in derivative agreements. FAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. This statement will require us to provide expanded disclosures of our interest rate hedge contract.

On May 9, 2008, the FASB issued FASB Staff Position APB 14-a (the convertible debt FSP). This guidance clarifies the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. This guidance will significantly impact the accounting of the Company s convertible debt by requiring bifurcation of a component of the debt, classification of that component in stockholders equity, and then accretion of the resulting discount on the debt to result in interest expense equal to the issuer s nonconvertible debt borrowing rate. Other than the impact on net income from the debt discount amortization, the calculation of earnings-per-share will not be affected. The convertible debt FSP will be effective for fiscal years beginning after December 15, 2008. We estimate that the adoption of the convertible debt FSP will cause (i) approximately $21.4 million of our convertible debt s original carrying amount to be reclassified into shareholders equity and (ii) additional interest expense of $4.0 million to $5.5 million to be recorded each year.

On June 16, 2008, the FASB issued FASB Staff Position EITF 03-6-1 (the dividend rights FSP). This guidance clarifies the accounting for unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents by proscribing that such awards be included in the computation of earnings per share (EPS) pursuant to the two-class method. The dividend rights FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008. We believe that the adoption of the dividend rights FSP will not have a material impact on our EPS calculation.

Revenue Recognition

Residential properties (our multifamily segment) are leased under operating leases with terms of generally one year or less, and commercial properties (our office, medical office, retail and industrial segments) are leased under operating leases with average terms of three to seven years.

We recognize rental income and rental abatements from our residential and commercial leases when earned on a straight-line basis in accordance with SFAS No. 13 Accounting for Leases. Recognition of rental income commences when control of the facility has been given to the tenant. We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. This estimate is based on our historical experience and a review of the current status of the Company s receivables. Percentage rents, which represent additional rents based on gross tenant sales, are recognized when tenants sales exceed specified thresholds.

WASHINGTON REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

(UNAUDITED)

In accordance with SFAS No. 66, *Accounting for Sales of Real Estate*, sales are recognized at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement.

We recognize cost reimbursement income from pass-through expenses on an accrual basis over the periods in which the expenses were incurred. Pass-through expenses are comprised of real estate taxes, operating expenses and common area maintenance costs which are reimbursed by tenants in accordance with specific allowable costs per tenant lease agreements.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable primarily represents amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to our revenue recognition policy. Receivables are reviewed monthly and reserves are established when, in the opinion of management, collection of the receivable is doubtful. When the collection of a receivable is deemed doubtful in the same quarter that the receivable was established, then the allowance for that receivable is recognized as an offset to real estate revenues. When a receivable that was initially established in a prior quarter is deemed doubtful, then the allowance is recognized as an operating expense. In addition to rents due currently, accounts receivable include amounts representing minimal rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. Reserves are established for tenants whose rent payment history or financial condition casts doubt upon the tenant s ability to perform under its lease obligation.

Minority Interests

We entered into an operating agreement with a member of the entity that previously owned Northern Virginia Industrial Park in conjunction with the acquisition of this property in May 1998. This resulted in a minority ownership interest in this property based upon defined company ownership units at the date of purchase. The operating agreement was amended and restated in 2002, resulting in a reduced minority ownership percentage interest. We account for this activity by recording minority interest expense by applying the minority owner s percentage ownership interest to the net income of the property and including such amount in our general and administrative expenses, thereby reducing net income.

In August 2007 we acquired a 0.8 acre parcel of land located at 4661 Kenmore Avenue, Alexandria, Virginia for future medical office development. The acquisition was funded by issuing operating units in a consolidated subsidiary of WRIT. This resulted in a minority ownership interest in this property based upon defined company ownership units at the date of purchase. We account for this activity by recording minority interest expense by applying the minority owner s percentage ownership interest to the net income of the property and including such amount in our general and administrative expenses, thereby reducing net income.

Minority interest expense was $48,100 and $158,300 for the 2008 Quarter and 2008 Period, respectively, and $101,000 and $207,000 for the 2007 Quarter and 2007 Period, respectively. Quarterly distributions are made to the minority owners equal to the quarterly dividend per share for each ownership unit.

Deferred Financing Costs

External costs associated with the issuance or assumption of mortgages, notes payable and fees associated with the lines of credit are capitalized and amortized using the effective interest rate method or the straight-line method which approximates the effective interest rate method over the term of the related debt. As of September 30, 2008 and December 31, 2007, deferred financing costs of $21.1 million and $23.9 million, respectively, net of accumulated amortization of $5.3 million and $7.9 million, were included in prepaid expenses and other assets on the balance sheets. The amortization is included in interest expense in the accompanying statements of income. The amortization of debt costs included in interest expense totaled $0.6 million and $2.0 million for the 2008 Quarter and 2008 Period, respectively, and $0.7 million and $1.8

million for the 2007 Quarter and the 2007 Period, respectively.

Deferred Leasing Costs

Costs associated with the successful negotiation of leases, both external commissions and internal direct costs, are capitalized and amortized on a straight-line basis over the terms of the respective leases. If an applicable lease terminates prior to the expiration of its initial lease term, the carrying amount of the costs are written-off to amortization expense. As of September 30,

WASHINGTON REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

(UNAUDITED)

2008 and December 31, 2007, deferred leasing costs of $30.5 million and $23.8 million, respectively, net of accumulated amortization of $10.1 million and $8.3 million, were included in prepaid expenses and other assets on the balance sheets. The amortization of deferred leasing costs included in amortization expense for properties classified as continuing operations totaled $0.9 million and $2.6 million for the 2008 Quarter and the 2008 Period, respectively, and $0.8 million and $2.3 million for the 2007 Quarter and the 2007 Period, respectively.

Real Estate and Depreciation

Buildings are depreciated on a straight-line basis over estimated useful lives ranging from 28 to 50 years. All capital improvement expenditures associated with replacements, improvements, or major repairs to real property that extend its useful life are capitalized and depreciated using the straight-line method over their estimated useful lives ranging from 3 to 30 years. We also capitalize costs incurred in connection with our development projects, including capitalizing interest and other internal costs during periods in which development projects are in progress. In addition, we capitalize tenant leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvements. All tenant improvements are amortized over the shorter of the useful life of the improvements or the term of the related tenant lease. Real estate depreciation expense from continuing operations was $17.3 million and $51.0 million for the 2008 Quarter and Period, respectively, and $14.5 million and $40.4 million for the 2007 Quarter and Period, respectively. Maintenance and repair costs that do not extend an asset s life are charged to expense as incurred.

We capitalize interest costs incurred on borrowing obligations while qualifying assets are being readied for their intended use in accordance with SFAS No. 34, Capitalization of Interest Cost. Total interest expense capitalized to real estate assets related to development and major renovation activities was $0.4 million and $1.9 million for the 2008 Quarter and Period, respectively, and $1.7 million and $4.6 million for the 2007 Quarter and Period, respectively. Interest capitalized is amortized over the useful life of the related underlying assets upon those assets being placed into service.

We recognize impairment losses on long-lived assets used in operations and held for sale, development assets or land held for future development, if indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount and estimated undiscounted cash flows associated with future development expenditures. If such carrying amount is in excess of the estimated cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to the estimated fair value. There were no long-live asset impairments recognized during 2008 and 2007 Quarters or 2008 and 2007 Periods.

We allocate the purchase price of acquired properties to the related physical assets and in-place leases based on their fair values, in accordance with SFAS No. 141, Business Combinations. The fair values of acquired buildings are determined on an as-if-vacant basis considering a variety of factors, including the physical condition and quality of the buildings, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. The as-if-vacant fair value is allocated to land, building and tenant improvements based on property tax assessments and other relevant information obtained in connection with the acquisition of the property. No goodwill was recorded on our acquisitions for the 2008 and 2007 Quarters or 2008 and 2007 Periods.

The fair value of in-place leases consists of the following components (1) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant and foregone recovery of tenant pass-throughs (referred to as Absorption Cost), (2) the estimated cost of tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as Tenant Origination Cost); (3) estimated leasing commissions associated with obtaining a new tenant (referred to as Leasing Commissions); (4) the above/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as Net Lease Intangible); and (5) the value, if any, of customer relationships, determined based on our evaluation of the specific characteristics of each tenant s lease and our overall relationship with the tenant (referred to as Customer Relationship Value).

The amounts used to calculate Net Lease Intangible are discounted using an interest rate which reflects the risks associated with the leases acquired. Tenant Origination Costs are included in real estate assets on our balance sheet and are amortized as depreciation expense on a straight-line basis over the remaining life of the underlying leases. Leasing Commissions and Absorption Costs are classified as other assets and are amortized as amortization expense on a straight-line basis over the remaining life of the underlying leases. Net Lease Intangible Assets are classified as other assets and are amortized on a

WASHINGTON REAL ESTATE INVESTMENT TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

(UNAUDITED)

straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. Net lease intangible liabilities are classified as other liabilities and are amortized on a straight-line basis as an increase to real estate rental revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, the unamortized portion of the tenant origination cost, leasing commissions, absorption costs and net lease intangible associated with that lease are written off to depreciation expense, amortization expense, and real estate rental revenue, respectively.

Balances, net of accumulated depreciation or amortization, as appropriate, of the components of the fair value of in-place leases at September 30, 2008 and December 31, 2007 are as follows (in millions):

	September 30, 2008			December 31, 2007		
	Gross Carrying Value	**Accumulated Amortization**	**Net**	**Gross Carrying Value**	**Accumulated Amortization**	**Net**
Tenant Origination Costs	$ 31.3	$ 14.8	$ 16.5	$ 31.3	$ 10.9	$ 20.4
Leasing Commissions/Absorption Costs	$ 34.1	$ 13.8	$ 20.3	$ 33.8	$ 8.8	$ 25.0
Net Lease Intangible assets	$ 8.8	$ 5.3	$ 3.5	$ 8.9	$ 4.3	$ 4.6
Net Lease Intangible liabilities	$ 22.8	$ 9.2	$ 13.6	$ 23.5	$ 6.3	$ 17.2

Amortization of these components combined was $2.5 million and $7.3 million for the 2008 Quarter and Period, respectively, and $2.2 million and $6.4 million for the 2007 Quarter and Period, respectively. In addition, we have a below-market ground lease intangible asset from a 2007 acquisition with gross and net carrying values of $12.1 million and $11.9 million, respectively, as of September 30, 2008. No value had been assigned to customer relationship value at September 30, 2008 or December 31, 2007.

Discontinued Operations

We classify properties as held for sale when they meet the necessary criteria specified by SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* and EITF 03-13, *Applying the Conditions in Paragraph 42 of FASB Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, in Determining Whether to Report Discontinued Operations*. These include: senior management commits to and actively embarks upon a plan to sell the assets, the sale is expected to be completed within one year under terms usual and customary for such sales and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn. Depreciation on these properties is discontinued, but operating revenues, operating expenses and interest expense continue to be recognized until the date of sale.

Under SFAS No. 144, revenues and expenses of properties that are either sold or classified as held for sale are presented as discontinued operations for all periods presented in the statements of income. Interest on debt that can be identified as specifically attributed to these properties is included in discontinued operations. We do not have significant continuing involvement in the operations of any of our disposed properties.

Cash and Cash Equivalents

Cash and cash equivalents include investments readily convertible to known amounts of cash with original maturities of 90 days or less.

Restricted Cash

Restricted cash at September 30, 2008 and December 31, 2007 consisted of $47.1 million and $6.0 million, respectively, in funds escrowed for tenant security deposits for certain tenants, real estate tax, insurance and mortgage escrows and escrow deposits required by lenders on certain of our properties to be used for future building renovations or tenant improvements. The balance at September 30, 2008 includes proceeds from the sale of real estate of $40.2 million escrowed in a tax free property exchange account (see Note 3).

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Assets and Liabilities Measured at Fair Value

For assets and liabilities measured at fair value on a recurring basis, SFAS No. 157, *Fair Value Measurements*, requires quantitative disclosures about the fair value measurements separately for each major category of assets and liabilities. The only assets or liabilities the Company has at September 30, 2008 that are recorded at fair value on a recurring basis are the assets held in the Supplemental Executive Retirement Program (SERP) and an interest rate hedge contract. The Company s valuations related to these items are based on assumptions derived from significant other observable inputs and accordingly fall into Level 2 in the fair value hierarchy. The fair value of these assets and liabilities at September 30, 2008 is as follows (in millions):

	September 30, 2008			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
SERP	$ 0.8	$	$ 0.8	$
Derivatives	$ 0.3	$	$ 0.3	$

Derivative Instruments

In February 2008, we entered into an interest rate swap with a notional amount of $100 million that qualifies as a cash flow hedge under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (see Note 6 for further details). We enter into interest rate swaps to manage our exposure to variable rate interest risk. We do not purchase derivatives for speculation. Our cash flow hedges are recorded at fair value. The effective portion of changes in fair value of cash flow hedges is recorded in other comprehensive income. The ineffective portion of changes in fair value of cash flow hedges is recorded in earnings in the period affected. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis. The hedge was deemed effective in the 2008 Quarter and Period. We did not have any cash flow hedges during 2007.

Stock Based Compensation

We maintained a Share Grant Plan and Incentive Stock Option Plans as described in Note 7, and pursuant to those plans we made restricted share grants and granted share options to officers, eligible employees and trustees. Officer and non-officer employee share grants vesting over five years vest in annual installments commencing one year after the date of grant, and share grants vesting over three years vest twenty-five percent from date of grant in years one and two and fifty percent in year three. Officer performance share units, granted under an amendment to the Share Grant Plan, cliff vest at the end of a three year performance period. Trustee share grants are fully vested immediately upon date of share grant and are restricted from transferability for the period of the trustee s service.

In March 2007, the WRIT Board of Trustees adopted, and in July 2007 WRIT shareholders approved, the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan (2007 Plan). This plan replaced the Share Grant Plan, which expired on December 15, 2007, as well as the Incentive Stock Option Plans. As described above, the shares and options granted pursuant to the above plans are not affected by the adoption of the 2007 Plan. If an award under the Share Grant Plan is forfeited or an award of options granted under the Option Plans expires without being exercised, the shares covered by those awards will not be available for issuance under the 2007 Plan.

The 2007 Plan provides for the award to WRIT s trustees, officers and non-officer employees of restricted shares, restricted share units, options and other awards up to an aggregate of 2,000,000 shares over the ten year period in which the plan will be in effect. If an award under the 2007 Plan of restricted shares or restricted share units is forfeited or an award of options or any other rights granted under the 2007 Plan expires without being exercised, the shares covered by any such award would again become available for issuance under new awards.

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Compensation expense is recognized for share grants over the vesting period equal to the fair market value of the shares on the date of grant. Compensation expense for the trustee grants, which fully vest immediately, is fully recognized upon issuance based upon the fair market value of the shares on the date of grant. The unvested portion of officer and non-officer employee share grants is recognized in compensation cost over the vesting period.

Unvested shares are forfeited upon an employee s termination except for employees eligible for retirement whose unvested shares fully vest upon retirement. For shares granted to employees who are eligible for retirement or will become eligible for retirement during the vesting period, compensation cost is recognized over the explicit service period with acceleration of expense upon the date of actual retirement for these employees. The Company will continue this practice for awards granted prior to January 1, 2006, when SFAS No. 123R was adopted, and for shares granted after the adoption of SFAS No. 123R the Company will recognize compensation expense through the date that the employee is no longer required to provide service to earn the award (e.g. the date the employee is eligible to retire).

Stock options were historically issued annually to officers, non-officer key employees and trustees under the Incentive Stock Option Plans. They were last issued to officers in 2002, to non-officer key employees in 2003 and to trustees in 2004. The options vested over a 2-year period in annual installments commencing one year after the date of grant, except for trustee options which vested immediately upon the date of grant. Stock options issued prior to the adoption of SFAS No. 123R are accounted for in accordance with APB No. 25, whereby if options are priced at fair market value or above at the date of grant and if other requirements are met then the plans are considered fixed and no compensation expense is recognized. Accordingly, we have recognized no compensation cost for stock options.

Earnings per Common Share

We calculate basic and diluted earnings per share in accordance with SFAS No. 128, Earnings per Share. Basic earnings per share excludes dilution and is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares, and then shared in our earnings. Sources of potentially dilutive common shares are our share based compensation plans, operating partnership units and senior convertible notes. The senior convertible notes were not dilutive for the 2008 Quarter and Period.

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The following table sets forth the computation of basic and diluted earnings per share (dollars in thousands; except per share data):

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Numerator for basic and diluted per share calculations:				
Income from continuing operations	$ 5,613	$ 7,772	$ 8,325	$ 23,871
Discontinued operations including gain on sale of real estate	266	26,618	17,274	29,568
Net income	$ 5,879	$ 34,390	$ 25,599	$ 53,439
Denominator for basic and diluted per share calculations:				
Denominator for basic per share amounts weighted average shares	49,599	46,596	48,057	45,678
Effect of dilutive securities:				
Employee stock options/restricted share awards and units	126	124	145	172
Operating partnership units	124	82	96	27
Denominator for diluted per share amounts	49,849	46,802	48,298	45,877
Income from continuing operations per share				
Basic	$ 0.11	$ 0.17	$ 0.17	$ 0.52
Diluted	$ 0.11	$ 0.17	$ 0.17	$ 0.52
Discontinued operations including gain on disposal				
Basic	$ 0.01	$ 0.57	$ 0.36	$ 0.65
Diluted	$ 0.01	$ 0.56	$ 0.36	$ 0.64
Net income per share				
Basic	$ 0.12	$ 0.74	$ 0.53	$ 1.17
Diluted	$ 0.12	$ 0.73	$ 0.53	$ 1.16

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Other Comprehensive Income (Loss)

We recorded other comprehensive income of $0.3 million for the period ended September 30, 2008 to account for the change in valuation of an interest rate swap agreement that qualifies as a cash flow hedge under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. We recorded no other comprehensive income or loss for 2007.

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NOTE 3: REAL ESTATE INVESTMENTS

Our real estate investment portfolio, at cost, consists of properties located in Maryland, Washington, D.C. and Virginia as follows (in thousands):

	September 30, 2008	December 31, 2007
Office buildings	$ 857,132	$ 817,508
Medical office buildings	364,866	354,485
Retail centers	266,896	257,966
Multifamily properties	311,214	212,290
Industrial/Flex properties	319,320	304,920
	$ 2,119,428	$ 1,947,169

The amounts above reflect properties classified as continuing operations, which means they are to be held and used in rental operations (income producing property).

We have several properties that were recently in development in our office and multifamily sectors. In the office sector, Dulles Station, Phase I was placed into service during the third quarter of 2008. Dulles Station, Phase II remains in development. In the multifamily sector, Bennett Park was substantially completed in the fourth quarter of 2007, and The Clayborne Apartments were substantially completed in the first quarter of 2008. In the medical office sector, we have land held for development at 4661 Kenmore Ave. The cost of our real estate portfolio in development is illustrated below (in thousands):

	September 30, 2008	December 31, 2007
Office buildings	$ 18,442	$ 56,311
Medical office buildings	4,539	4,016
Retail centers	250	74
Multifamily	207	37,920
Industrial/Flex properties	31	
	$ 23,469	$ 98,321

We dispose of assets (sometimes using tax-deferred exchanges) that are inconsistent with our long-term strategic or return objectives and when market conditions for sale are favorable. The proceeds from the sales may be redeployed into other properties, used to fund development operations or to support other corporate needs, or distributed to our shareholders. Two office properties, Maryland Trade Centers I and II, were sold as of September 30, 2007 and initially classified as held for sale as of March 31, 2007. They were sold for a contract sales price of $58.0 million that resulted in a gain on sale of $25.0 million. Two industrial properties, Sullyfield Center and The Earhart Building, were sold on June 6, 2008 and initially classified as held for sale in November 2007. They were sold for a contract sales price of $41.1 million that resulted in a gain on sale of $15.3 million.

Properties are considered held for sale when they meet the criteria specified by SFAS No. 144 (see Note 2 Discontinued Operations). Depreciation on these properties is discontinued at that time, but operating revenues, other operating expenses and interest continue to be recognized until the date of sale. One multifamily property, Avondale, was classified as held for sale in the 2008 Quarter. Senior management has committed to, and actively embarked upon, a plan to sell the assets, and the sale is expected to be completed within one year under the terms usual and customary for such sales, with no indication that the plan will be significantly altered or abandoned. The held for sale property was classified as discontinued operations in the Statements of Income for the 2008 and 2007 Quarters and Periods.

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Operating results of the properties classified as discontinued operations are summarized as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	$ 757	$ 3,465	$ 4,145	$ 10,447
Property expenses	(368)	(1,436)	(1,677)	(4,271)
Depreciation and amortization	(123)	(433)	(469)	(1,630)
	$ 266	$ 1,596	$ 1,999	$ 4,546

Operating results by property are summarized below (in thousands):

		Three Months Ended September 30,		Nine Months Ended September 30,	
Property	Segment	2008	2007	2008	2007
Maryland Trade Center I	Office	$	$ 498	$	$ 1,338
Maryland Trade Center II	Office		372		1,137
Sullyfield Center	Industrial		358	1,065	942
The Earhart Building	Industrial		174	421	524
Avondale	Multifamily	266	194	513	605
		$ 266	$ 1,596	$ 1,999	$ 4,546

Our results of operations are dependent on the overall economic health of our markets, tenants and the specific segments in which we own properties. These segments include commercial office, medical office, retail, multifamily and industrial. All sectors are affected by external economic factors, such as inflation, consumer confidence, unemployment rates, etc., as well as by changing tenant and consumer requirements. Because the properties are located in the Washington metro region, the Company is subject to a regional concentration of credit risk related to the tenants leasing these properties.

WRIT acquired the following properties during the first nine months of 2008:

Acquisition Date	Property Name	Property Type	Rentable Square Feet	Purchase Price (in thousands)
February 22, 2008	6100 Columbia Park Road	Industrial/Flex	150,000	$ 11,200
May 21, 2008	Sterling Medical Office Building	Medical office	36,000	6,500
September 3, 2008	Kenmore Apartments	Multifamily	269,000	58,300

Total 2008 Period	455,000	$	76,000

As discussed in Note 2, we allocate the purchase price to the related physical assets (land, building and tenant improvements) and in-place leases (absorption, tenant origination costs, leasing commissions, and net lease intangible assets/liabilities) based on their fair values, in accordance with SFAS No. 141, Business Combinations. Our acquisition of the properties listed above resulted in the recognition of $1.1 million in absorption costs and $0.2 million in leasing commissions, $0.6 million in tenant origination costs and $0.2 million in net intangible lease liabilities. The weighted average remaining life for these components are 52 months for tenant origination costs, 59 months for leasing commissions/absorption costs, and 45 months for net intangible lease liabilities. The results of operations from these acquired properties are included in the income statement as of their respective acquisition dates.

The purchases were funded with cash from operations and borrowings on one of our lines of credit.

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The following unaudited pro-forma combined condensed statements of operations present the consolidated results of operations for the 2008 Quarter and Period and the 2007 Quarter and Period, as if the above described acquisitions had occurred at the beginning of the period of acquisition and the same period in the year prior to the acquisition. The unaudited pro-forma information does not purport to be indicative of the results that actually would have occurred if the acquisitions had been in effect for the Quarters and Periods presented. The unaudited data presented is in millions, except per share data.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Real estate revenues	$ 71.7	$ 66.3	$ 213.7	$ 191.9
Income from continuing operations	$ 6.2	$ 8.7	$ 10.5	$ 26.6
Net income	$ 6.4	$ 35.3	$ 27.8	$ 56.2
Diluted earnings per share	$ 0.13	$ 0.75	$ 0.58	$ 1.22

NOTE 4: MORTGAGE NOTES PAYABLE

	(in thousands)	
	September 30, 2008	December 31, 2007
On September 27, 1999, we executed a $50.0 million mortgage note payable secured by Munson Hill Towers, Country Club Towers, Roosevelt Towers, Park Adams Apartments and the Ashby of McLean. The mortgage bears interest at 7.14% per annum and interest only is payable monthly until October 1, 2009, at which time all unpaid principal and interest are payable in full.	$ 50,000	$ 50,000
On October 9, 2003, we assumed a $36.1 million mortgage note payable and a $13.7 million mortgage note payable as partial consideration for our acquisition of the Prosperity Medical Centers. The mortgages bear interest at 5.36% per annum and 5.34% per annum, respectively. Principal and interest are payable monthly until May 1, 2013, at which time all unpaid principal and interest are payable in full.	46,094	46,644
On August 12, 2004, we assumed a $10.1 million mortgage note payable, with an estimated fair value* of $11.2 million, as partial consideration for our acquisition of Shady Grove Medical Village II. The mortgage bears interest at 6.98% per annum. Principal and interest are payable monthly until December 1, 2011, at which time all unpaid principal and interest are payable in full.	10,067	10,286
On December 22, 2004, we assumed a $15.6 million mortgage note payable, with an estimated fair value* of $17.8 million, and a $3.9 million mortgage note payable with an estimated fair value of $4.2 million as partial consideration for our acquisition of Dulles Business Park. The mortgages bear interest at 7.09% per annum and 5.94% per annum, respectively. Principal and interest are payable monthly until August 10, 2012, at which time all unpaid principal and interest are payable in full.	19,768	20,235
On March 23, 2005 we assumed a $24.3 million mortgage note payable, with an estimated fair value* of $25.0 million, as partial consideration for the acquisition of Frederick Crossing. The mortgage bears interest at 5.95% per annum. Principal and interest are payable monthly until January 1, 2013 at which time all unpaid principal and interest are payable in full.	23,428	23,783
On April 13, 2006, we assumed a $5.7 million mortgage note payable as partial consideration for the acquisition of 9707 Medical Center Drive. The mortgage bears interest at 5.32% per annum. Principal and interest are payable monthly until July 1, 2028 at which time all unpaid principal and interest are payable in	5,316	5,428

full.		
On June 22, 2006, we assumed a $4.9 million mortgage note payable as partial consideration for the acquisition of Plumtree Medical Center. The mortgage bears interest at 5.68% per annum. Principal and interest are payable monthly until March 11, 2013 at which time all unpaid principal and interest are payable in full.	4,704	4,762

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On July 12, 2006, we assumed an $8.8 million mortgage note payable as partial consideration for the acquisition of 15005 Shady Grove Road. The mortgage bears interest at 5.73% per annum. Principal and interest are payable monthly until March 11, 2013 at which time all unpaid principal and interest are payable in full.	8,506	8,613
On August 25, 2006, we assumed a $34.2 million mortgage note payable as partial consideration for the acquisition of 20-50 West Gude Drive. The mortgage bears interest at 5.86% per annum. Principal and interest are payable monthly until March 11, 2013 at which time all unpaid principal and interest are payable in full.	32,971	33,417
On August 25, 2006, we assumed a $23.1 million mortgage note payable as partial consideration for the acquisition of 902-904 Wind River Lane and 200 Orchard Ridge Road. The mortgage bears interest at 5.82%** per annum. Principal and interest are payable monthly until August 11, 2033** at which time all unpaid principal and interest are payable in full. The note may be repaid without penalty on August 11, 2010.	22,372	22,641
On June 1, 2007, we assumed a $21.2 million mortgage note payable as partial consideration for the acquisition of Woodholme Medical Office Building. The mortgage bears interest at 5.29% per annum. Principal is payable beginning November 1, 2007, and principal and interest are payable monthly until November 1, 2015 at which time all unpaid principal and interest are payable in full.	20,969	21,176
On June 1, 2007, we assumed a $3.1 million mortgage note payable and a $3.0 million mortgage note payable as partial consideration for our acquisition of the Ashburn Farm Office Park. The mortgages bear interest at 5.56% per annum and 5.69% per annum, respectively. Principal and interest are payable monthly until May 31, 2025 and July 31, 2023, respectively, at which time all unpaid principal and interest are payable in full.	5,345	5,499
On May 29, 2008, we executed three mortgage notes payable totaling $81.0 million secured by 3801 Connecticut, Walker House and Bethesda Hill. The mortgage bears interest at 5.71% per annum and interest only is payable monthly until May 31, 2016, at which time all unpaid principal and interest are payable in full.	81,029	
	$ 330,569	$ 252,484

* The fair value of the mortgage notes payable was estimated upon acquisition based upon dealer quotes for instruments with similar terms and maturities. There is no notation when the fair value approximates the carrying value.

** If the loan is not repaid on August 11, 2010, from and after August 11, 2010, the interest rate adjusts to one of the following rates: (i) the greater of (A) 10.82% or (B) the Treasury Rate (determined as of August 11, 2010, and defined as the yield calculated using linear interpolation approximating the period from August 11, 2010 to August 11, 2033 on the basis of Federal Reserve Stat. Release H.15-Selected Interest Rates under the heading U.S. Governmental Security/Treasury Constant Maturities) plus 5%; or (ii) if the Note is an asset of an entity formed for purposes of securitization and pursuant thereto securities rated by a rating agency have been issued, then the rate will equal: the greater of (A) 7.82% or (B) the Treasury Rate plus 2%. Due to the high probability that the mortgage will be paid off on August 11, 2010, that date is reflected in the future maturities schedule.

Total carrying amount of the above mortgaged properties was $510.3 million and $449.3 million at September 30, 2008 and December 31, 2007, respectively. Scheduled principal payments for the remaining three months in 2008 and the remaining years subsequent to December 31, 2008 are as follows (in thousands):

	Total Principal Payments
2008	$ 1,113
2009	54,285
2010	25,973
2011	13,339

2012	21,088
Thereafter	214,771
Total	$ 330,569

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NOTE 5: UNSECURED LINES OF CREDIT PAYABLE

As of September 30, 2008, we maintained a $75.0 million unsecured line of credit maturing in June 2011 (Credit Facility No. 1) and a $262.0 million line of credit maturing in November 2010 (Credit Facility No. 2).

Credit Facility No. 1

Credit Facility No. 1 replaced Credit Facility No. 3 (see below) on June 29, 2007. We had no borrowings outstanding as of September 30, 2008 related to Credit Facility No. 1, and $14.5 million in Letters of Credit issued, with $60.5 million unused and available capacity. The balance under this facility was $70.0 million at December 31, 2007. During the third quarter of 2008, $15.0 million was repaid using a portion of the proceeds from the $40.8 million in equity issued under a Sales Agency Financing Agreement. WRIT may further increase the capacity under the facility up to $200 million to the extent the lender agrees to provide the additional commitment.

Borrowings under the facility bear interest at our option of LIBOR plus a spread based on the credit rating on our publicly issued debt or the higher of SunTrust Bank s prime rate and the Federal Funds Rate in effect plus 0.5%. All outstanding advances are due and payable upon maturity in June 2011. Interest only payments are due and payable generally on a monthly basis. For 2008 Quarter and Period, we incurred interest expense (excluding facility fees) of $182,500 and $1.6 million, respectively, representing an average interest rate of 5.03% and 5.24% per annum, respectively. For both the 2007 Quarter and Period, we incurred interest expense (excluding facility fees) of $176,000, representing an average interest rate of 5.81% per annum.

In addition, we pay a facility fee, based on the credit rating of our publicly-issued debt, currently equal to 0.15% per annum of the $75.0 million committed capacity, without regard to usage. Rates and fees may be adjusted up or down based on changes in our senior unsecured credit ratings. For the 2008 Quarter and Period, we incurred facility fees of $28,800 and $75,100, respectively. For both the 2007 Quarter and Period, we incurred facility fees of $26,800.

Credit Facility No. 2

We had $47.0 million outstanding as of September 30, 2008 related to Credit Facility No. 2, and $0.9 million in Letters of Credit issued, with $214.1 million unused and available for subsequent acquisitions, capital improvements or other corporate purposes. At December 31, 2007, $122.5 million was outstanding under this facility. During the third quarter of 2008, we borrowed $58.0 million to acquire Kenmore Apartments and we repaid $11.0 million using a portion of the proceeds from the $40.8 million in equity issued under a Sales Agency Financing Agreement.

On January 25, 2008, WRIT exercised the right to increase the capacity of the unsecured revolving credit facility with a syndicate of banks led by Wells Fargo Bank, National Association from $200 million to $262 million. The maturity date and all other terms remain materially unchanged. WRIT may further increase the capacity under the facility up to $400 million to the extent banks (from the syndicate or otherwise) agree to provide the additional commitment.

Advances under this agreement bear interest at our option of LIBOR plus a spread based on the credit rating on our publicly issued debt or the higher of Wells Fargo Bank s prime rate and the Federal Funds Rate in effect on that day plus 0.5%. All outstanding advances are due and payable upon maturity in November 2010. Interest only payments are due and payable generally on a monthly basis. For the 2008 Quarter and Period, we incurred interest expense (excluding facility fees) of approximately $140,800 and $3.0 million, respectively, representing an average interest rate of 3.14% and 5.16%, respectively, per annum. For the 2007 Quarter and Period, we incurred interest expense (excluding facility fees) of approximately $1.4 million and $3.2 million, respectively, representing an average interest rate of 5.80% and 5.79%, respectively, per annum.

Currently, Credit Facility No. 2 requires us to pay the lenders a facility fee on the total commitment of 0.15% per annum. These fees are payable quarterly. For the 2008 Quarter and Period, we incurred facility fees of $100,400 and $292,900, respectively. For the 2007 Quarter and Period, we incurred facility fees of $77,000 and $227,500, respectively.

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Credit Facility No. 3

Credit Facility No. 3 was replaced by Credit Facility No. 1 on June 29, 2007. Advances under this agreement bore interest at LIBOR plus a spread based on the credit rating on our publicly issued debt. There were no borrowings outstanding and payable under the facility upon the termination of the agreement in June 2007. Interest only payments were due and payable on a monthly basis. For the 2007 Period, we incurred $96,400 in interest expense (excluding facility fees) representing an average interest rate of 5.90%.

Credit Facility No. 3 required us to pay the lender a facility fee on the total commitment of 0.15% per annum, based on the credit rating on our publicly issued debt. These fees were payable quarterly. We incurred facility fees of $52,800 for the 2007 Period.

Credit Facility No. 1 and No. 2 contain certain financial and non-financial covenants, all of which we have been met as of September 30, 2008.

NOTE 6: NOTES PAYABLE

On February 20, 1998, we issued $50.0 million of 7.25% unsecured notes due February 25, 2028 at 98.653% to yield approximately 7.36%. We also sold $60.0 million in unsecured Mandatory Par Put Remarketed Securities (MOPPRS) at an effective borrowing rate through the remarketing date (February 2008) of approximately 6.74%. On February 25, 2008, we repaid the $60 million outstanding principal balance under the MOPPRS notes. The total aggregate consideration paid to repurchase the notes was $70.8 million, which included $8.7 million for the remarketing option value paid to the remarketing dealer and accrued interest paid to the noteholders. Accordingly, WRIT recognized a loss on extinguishment of debt of $8.4 million, net of unamortized loan premium costs, upon settlement of these securities. WRIT refinanced the repurchase of these notes, and refinanced a portion of the line outstanding under a credit facility, by issuing the $100 million 2-year term loan described below.

On March 17, 2003, we issued $60.0 million of 5.125% unsecured notes due March 2013. The notes bear an effective interest rate of 5.23%. Our total proceeds, net of underwriting fees, were $59.1 million. We used portions of the proceeds of these notes to repay advances on our lines of credit and to fund general corporate purposes.

On December 11, 2003, we issued $100.0 million of 5.25% unsecured notes due January 2014. The notes bear an effective interest rate of 5.34%. Our total proceeds, net of underwriting fees, were $99.3 million. We used portions of the proceeds of these notes to repay advances on our lines of credit.

On April 26, 2005, we issued $50.0 million of 5.05% unsecured notes due May 1, 2012 and $50.0 million of 5.35% unsecured notes due May 1, 2015, at effective yields of 5.064% and 5.359% respectively. The net proceeds from the sale of the notes of $99.1 million were used to repay borrowings under our lines of credit totaling $90.5 million and the remainder was used for general corporate purposes.

On October 6, 2005, we issued an additional $100.0 million of the series of 5.35% unsecured notes due May 1, 2015, at an effective yield of 5.49%. $93.5 million of the $98.1 million net proceeds from the sale of these notes was used to repay borrowings under our lines of credit and the remainder was used to fund general corporate purposes.

On June 6, 2006, we issued $100.0 million of 5.95% unsecured notes due June 15, 2011 at 99.951% of par, resulting in an effective interest rate of 5.96%. Our total proceeds, net of underwriting fees, were $99.4 million. We used the proceeds of these notes to repay advances on one of our lines of credit.

On July 26, 2006, we issued an additional $50.0 million of the series of 5.95% unsecured notes due June 15, 2011 at 100.127% of par, resulting in an effective yield of 5.92%. Our total proceeds, net of underwriting fees, were $50.2 million. We used the proceeds of these notes to repay borrowings under our lines of credit and to fund general corporate purposes.

On September 11, 2006, we issued $100.0 million of 3.875% convertible notes due September 15, 2026. On September 22, 2006, we issued an additional $10.0 million of the 3.875% convertible notes due September 15, 2026, upon the exercise by the underwriter of an over-allotment option granted by WRIT. The notes were issued at 99.5% of par, resulting in an effective interest rate of 4.000%. Our total proceeds, net of underwriting fees, were $106.7 million. We used the proceeds of these notes to repay borrowings under our lines of credit and to fund general corporate purposes.

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On January 22, 2007, we issued an additional $135.0 million of the 3.875% convertible notes due September 15, 2026. On January 30, 2007, we issued an additional $15.0 million of the 3.875% convertible notes due September 15, 2026, upon the exercise by the underwriter of an over-allotment option granted by WRIT. The notes were issued at 100.5% of par, resulting in an effective interest rate of 4.003%. Our total proceeds, net of underwriting fees, were $146.0 million. We used the proceeds of these notes to fund the acquisition of 270 Technology Park and a portion of the acquisition of Monument II, to repay borrowings under our lines of credit, and to fund general corporate purposes.

The convertible notes are convertible into shares of our common stock, at the option of the holder, under specific circumstances or on or after July 15, 2026, at an initial conversion rate of 20.090 shares of common stock per $1,000 principal amount of notes. This is equivalent to an initial conversion price of $49.78 per share, which represents a 22% premium over the $40.80 closing price of our shares at the time the September 2006 transaction was priced and a 21% premium over the $41.17 closing price of our shares at the time the January 2007 transaction was priced. Holders may convert their notes into shares of our common stock prior to the maturity date based on the applicable conversion rate during any fiscal quarter if the closing price of our common stock for at least 20 trading days in the 30 consecutive trading day period ending on the last trading day of the immediate preceding fiscal quarter is more than 130% of the conversion price per share on the last day of such preceding fiscal quarter. The initial conversion rate is subject to adjustment in certain circumstances including an adjustment to the rate if the quarterly dividend rate to common shareholders is in excess of $0.4125 per share. In addition, the conversion rate will be adjusted if we make distributions of cash or other consideration by us or any of our subsidiaries in respect of a tender offer or exchange offer for our common stock, to the extent such cash and the value of any such other consideration per share of common stock validly tendered or exchanged exceeds the closing price of our common stock as defined in the note offering. Upon an exchange of notes, we will settle any amounts up to the principal amount of the notes in cash and the remaining exchange value, if any, will be settled, at our option, in cash, common shares or a combination thereof. The convertible notes could have a dilutive impact on our earnings per share calculation in the future. However, these notes are not dilutive for the 2008 and 2007 Quarters or Periods, and are not included in our earnings per share calculations.

On or after September 20, 2011, we may redeem the convertible notes at a redemption price equal to the principal amount of the notes plus any accrued and unpaid interest, if any, up to, but excluding, the purchase date. In addition, on September 15, 2011, September 15, 2016 and September 15, 2021 or following the occurrence of certain change in control transactions prior to September 15, 2011, holders of these notes may require us to repurchase the notes for an amount equal to the principal amount of the notes plus any accrued and unpaid interest thereon.

On February 21, 2008 we entered into a $100 million unsecured term loan (the 2010 Term Loan) with Wells Fargo Bank, National Association. The 2010 Term Loan has a maturity date of February 19, 2010 and bears interest at our option of LIBOR plus 1.50% or Wells Fargo s prime rate. To hedge our exposure to interest rate fluctuations on the $100 million note, we entered into an interest rate swap on a notional amount of $100 million, which had the effect of fixing the LIBOR portion of the interest rate on the term loan at 2.95% through February 2010. The current interest rate, taking into account the swap, is 4.45% (2.95% plus 150 basis points). The interest rate swap agreement will settle contemporaneously with the maturity of the loan. This swap qualifies as a cash flow hedge as discussed in Note 1.

The following is a summary of our unsecured note and term loan borrowings (in thousands):

	September 30, 2008	December 31, 2007
6.74% notes due 2008	$	$ 60,000
4.45% term loan due 2010	100,000	
5.95% notes due 2011	150,000	150,000
5.05% notes due 2012	50,000	50,000
5.125% notes due 2013	60,000	60,000
5.25% notes due 2014	100,000	100,000
5.35% notes due 2015	150,000	150,000

3.875% notes due 2026		260,000		260,000
7.25% notes due 2028		50,000		50,000
Discount on notes issued		(1,845)		(1,999)
Premium on notes issued		718		1,122
Total	$	918,873	$	879,123

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The required principal payments excluding the effects of note discounts or premium for the remaining three months in 2008 and the remaining years subsequent to December 31, 2008 are as follows (in thousands):

2008	$
2009	
2010	100,000
2011	150,000
2012	50,000
Thereafter	620,000
	$ 920,000

Interest on these notes is payable semi-annually, with the exception of the 2010 Term Loan, on which interest is payable monthly. All of the notes include certain non-financial covenants, and the non-convertible notes also include certain financial covenants, with which we must comply. The financial covenants include limits on our total debt, limits on our secured debt, limits on our required debt service payments and maintenance of a minimum level of unencumbered assets. We were in compliance with all of our note covenants as of September 30, 2008.

The covenants under the line of credit agreements require us to insure our properties against loss or damage in the amount of the replacement cost of the improvements at the properties. The covenants for the notes require us to keep all of our insurable properties insured against loss or damage at least equal to their then full insurable value. We have an insurance policy which has no terrorism exclusion; however, our financial condition and results of operations are subject to the risks associated with acts of terrorism and the potential for uninsured losses as the result of any such acts. Effective November 26, 2002, under this existing coverage, any losses caused by certified acts of terrorism would be partially reimbursed by the United States under a formula established by federal law. Under this formula the United States pays 85% of covered terrorism losses exceeding the statutorily established deductible paid by the insurance provider, and insurers pay 10% until aggregate insured losses from all insurers reach $100 billion in a calendar year. If the aggregate amount of insured losses under the Act exceeds $100 billion during the applicable period for all insured and insurers combined, then each insurance provider will not be liable for payment of any amount which exceeds the aggregate amount of $100 billion. On December 26, 2007, the Terrorism Risk Insurance Program Reauthorization Act of 2007 was signed into law and extends the Program through December 31, 2014.

NOTE 7: BENEFIT PLANS

Share Options and Grants

Options

In March 2007, the WRIT Board of Trustees adopted, and in July 2007 WRIT shareholders approved, the Washington Real Estate Investment Trust 2007 Omnibus Long-Term Incentive Plan (2007 Plan). This plan replaced the Share Grant Plan, which expired on December 15, 2007, as well as the 2001 Stock Option Plan and Stock Option Plan for Trustees. As described above, the shares and options granted pursuant to the above plans are not affected by the adoption of the 2007 Plan. However, if an award under the Share Grant Plan is forfeited or an award of options granted under the Option Plans expires without being exercised, the shares covered by those awards will not be available for issuance under the 2007 Plan.

The 2007 Plan provides for the award to WRIT s trustees, officers and non-officer employees of restricted shares, restricted share units, options and other awards up to an aggregate of 2,000,000 shares over the ten year period in which the plan will be in effect. If an award under the 2007

Plan of restricted shares or restricted share units is forfeited or an award of options or any other rights granted under the 2007 Plan expires without being exercised, the shares covered by any such award would again become available for issuance under new awards.

We adopted the Washington Real Estate Investment Trust 2001 Stock Option Plan to replace the 1991 Stock Option Plan that expired on June 25, 2001. The plans provided for the grant of qualified and non-qualified options. Options granted under the plans were granted with exercise prices equal to the market price on the date of grant, vested 50% after year one and 50% after year two and expire ten years following the date of grant. We adopted the Washington Real Estate Investment Trust Stock Option Plan for Trustees in March 1998. Options granted to trustees were granted with exercise prices equal to the market price on the date of grant and were fully vested on the grant date. The last option awards to officers were in 2002, to non-officer key employees in 2003 and to trustees in 2004.

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	2008	
	Shares	**Wtd Avg Ex Price**
Outstanding at January 1	438,000	24.40
Granted		
Exercised	(117,000)	22.20
Expired/Forfeited		
Outstanding at September 30	321,000	25.21
Exercisable at September 30	321,000	25.21

The 321,000 options outstanding at September 30, 2008, all of which are exercisable, have exercise prices between $14.47 and $33.09, with a weighted-average exercise price of $25.21 and a weighted average remaining contractual life of 3.7 years. The aggregate intrinsic value of outstanding exercisable shares at September 30, 2008 was $3.7 million. The aggregate intrinsic value of options exercised in the 2008 Period was $1.3 million. There were no forfeitures of options in the 2008 Period.

Share Grants, Performance Share Units and Restricted Share Units

We maintained a Share Grant Plan for officers, trustees, and other members of management.

In 2004 and 2005, awards were granted to officers and other members of management in the form of restricted shares, with a value equal to various percentages of a participant s salary based upon WRIT s performance compared to an appropriate benchmark target, with minimum and maximum thresholds. The awards were valued based on market value at the date of grant. Shares vest ratably over a five year period from the date of grant.

In December 2006, the WRIT Board of Trustees approved a program providing for the granting of restricted share units to officers and other members of management and performance share units to officers based upon various percentages of their salaries and their positions with WRIT. For officers, one-third of the award is in the form of restricted share units that vest twenty percent per year based upon continued employment and two-thirds of the award is in the form of performance share units. Performance targets are set annually based on appropriate benchmarks with minimum and maximum thresholds. The performance share unit awards are based on cumulative performance over three years, and will cliff vest at the end of the three year period. For other members of management, 100% of the award will be in the form of restricted shares that vest 20% per year from date of grant based on performance targets. WRIT s Chairman and former CEO was excluded from long-term awards under the program in view of his announced intention to retire in 2007. With respect to the performance share units, which are based on three-year cumulative performance targets set at the beginning of each year, the grant date does not occur until all such targets are set and thus the significant terms of the award are known. Because payouts are probable, the Company estimates the compensation expense at each reporting period until vesting occurs and as progress towards meeting target is known, and recognizes this expense ratably over the three-year period. The estimated expense related to the 2006 performance share units is approximately $1.5 million, of which $22,000 and $176,000 were recognized during the 2008 Quarter and Period, respectively. The 2006 estimate is based on the stock price on the grant date that coincides with the date that the three-year target was approved. The estimated expense related to the 2007 performance share units at the end of the three-year period is approximately $1.5 million, of which $24,000 and $11,000 were recognized during the 2008 Quarter and Period. The estimated expense related to the 2008 performance share units at the end of the three-year period is approximately $1.2 million, of which $5,000 and $275,000 were recognized during the 2008 Quarter and Period, respectively. Participants who terminate prior to the end of the three-year performance period forfeit their entire portion of the award. There were 2,734 restricted share units awarded to other members of management in February 2008. Effective in 2007 under the Long Term Incentive Plan, elected deferrals of short term incentive awards by officers are converted into restricted share units which vest immediately on the grant date and WRIT will match 25% of the deferred short term incentive in restricted share units, which vest at the end of three years. Dividends on these restricted share units are paid in the form of restricted share units valued based on the market value of WRIT s stock on the date dividends are paid. WRIT granted 4,783 restricted share units to officers in 2007 pursuant to elective short term incentive deferrals.

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Performance and restricted share units awarded were valued at a weighted average price per share based upon the market value on the date of grant, as follows:

	Shares	Wtd Avg Grant Price
2006	21,877	39.54
2007	62,572	32.96
2008	2,922	31.79

In May 2007, the value of the restricted shares awarded to trustees was increased to $55,000 from $30,000. These shares vest immediately and are restricted from sale for the period of the trustee s service.

The following are tables of activity for the 2008 Period related to our share grants and restricted share unit grants.

Awards under Share Grant Plan

	2008	
	Shares	Wtd Avg Grant Price
Vested at January 1	271,650	28.97
Unvested at January 1	62,530	34.15
Granted		
Vested during period	(20,644)	33.72
Expired/Forfeited	(344)	32.70
Unvested at September 30	41,542	34.37
Vested at September 30	292,294	29.31

There were no shares granted during the 2008 Period. The total fair value of shares vested during the 2008 Period was $0.7 million. As of September 30, 2008, the total compensation cost related to non-vested share awards not yet recognized was $0.7 million, which is expected to be recognized over a weighted-average period of 12 months on a straight-line basis.

Restricted Share Units

	2008	
	Shares	Wtd Avg Grant Price
Vested at January 1	8,154	35.73

Unvested at January 1	80,831	34.35
Granted	2,922	31.79
Vested during period	(8,184)	36.90
Expired/Forfeited	(1,762)	33.37
Unvested at September 30	73,807	33.99
Vested at September 30	16,338	36.31

The value of unvested restricted share units at September 30, 2008 was $2.1 million, which is expected to be recognized as compensation cost over a period of 40 months on a straight-line basis.

Total compensation expense recognized for stock based awards in the 2008 Quarter and Period was $0.7 million and $1.7 million, respectively, and $0.5 million and $2.2 million for the 2007 Quarter and Period, respectively.

Other Benefit Plans

We have a Retirement Savings Plan (the 401K Plan), which permits all eligible employees to defer a portion of their compensation in accordance with the Internal Revenue Code. Under the 401K Plan, the Company may make discretionary contributions on behalf of eligible employees. The Company made contributions to the 401K Plan of $109,000 and $330,000 for the 2008 Quarter and Period, respectively, and $94,000 and $292,000 for the 2007 Quarter and Period, respectively.

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We have adopted a non-qualified deferred compensation plan for the officers and members of the Board of Trustees. The plan allows for a deferral of a percentage of annual cash compensation and trustee fees. The plan is unfunded and payments are to be made out of the general assets of the Trust. During the 2008 Quarter, the prior CEO received a lump sum distribution of the present value of his deferred compensation. The deferred compensation liability was $0.8 million and $2.1 million at September 30, 2008 and December 31, 2007, respectively. Effective in 2007 under the Long Term Incentive Plan, elected deferrals of short term incentive awards by officers are converted into restricted share units and WRIT will match 25% of the deferred short term incentive in restricted share units, which vests at the end of three years.

We established a Supplemental Executive Retirement Plan (SERP) effective July 1, 2002 for the benefit of our prior CEO, who retired on May 31, 2007. Under this plan, upon the prior CEO s termination of employment from the Trust for any reason other than death, discharge for cause, or total and permanent disability he was entitled to receive an annual benefit equal to his accrued benefit times his vested interest. We accounted for this plan in accordance with SFAS No. 87, Employers Accounting for Pensions, whereby we accrued benefit cost in an amount that resulted in an accrued balance at the end of the prior CEO s employment which was not less than the present value of the estimated benefit payments to be made. At September 30, 2008 the accrued benefit liability was $1.9 million. For the 2008 Quarter and Period, we recognized current service cost of $33,000 and $99,000, respectively. For the 2007 Period, we recognized current service cost of $253,000. On December 31, 2006, WRIT adopted the recognition and disclosure provisions of SFAS No. 158. SFAS No. 158 required the Trust to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of its pension plan in the December 31, 2006 statement of financial position, with a corresponding adjustment to accumulated other comprehensive income, net of tax. Because the prior CEO s SERP is unfunded, the adoption of SFAS No. 158 did not have an effect on the Trust s consolidated financial condition at December 31, 2006, or for any prior period presented and it will not affect the Trust s operating results in future periods. The Trust currently has an investment in corporate owned life insurance intended to meet the SERP benefit liability since the prior CEO s retirement. Benefit payments to the prior CEO began in July 2008.

In November 2005, the Board of Trustees approved the establishment of a SERP for the benefit of the officers, other than the prior CEO. This is a defined contribution plan under which, upon a participant s termination of employment from the Trust for any reason other than discharge for cause, the participant will be entitled to receive a benefit equal to the participant s accrued benefit times the participant s vested interest. We account for this plan in accordance with EITF 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned are Held in a Rabbi Trust and Invested and SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, whereby the investments are reported at fair value, and unrealized holding gains and losses are included in earnings. For the 2008 Quarter and Period, we recognized current service cost of $76,000 and $237,000, respectively. For the 2007 Quarter and Period, we recognized current service cost of $70,000 and $176,000, respectively.

NOTE 8: SEGMENT INFORMATION

We have five reportable segments: office buildings, medical office buildings, retail centers, multifamily properties and industrial/flex centers. Office buildings provide office space for various types of businesses and professions. Medical office buildings provide offices and facilities for a variety of medical services. Retail centers are typically neighborhood grocery store or drug store anchored retail centers. Multifamily properties provide housing for families throughout the Washington metropolitan area. Industrial/flex centers are used for flex-office, warehousing and distribution type facilities.

Real estate revenue as a percentage of total revenue for each of the five reportable operating segments is as follows:

	Quarter Ended September 30,		Period Ended September 30,	
	2008	**2007**	**2008**	**2007**

Office Buildings	42%	40%	42%	41%
Medical Office Buildings	15%	16%	16%	15%
Retail Centers	15%	16%	15%	16%
Multifamily Properties	14%	13%	12%	13%
Industrial/Flex Centers	14%	15%	15%	15%

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The percentage of total real estate assets, at cost, for each of the five reportable operating segments (excluding properties held for sale and in-development) is as follows:

	September 30, 2008	December 31, 2007
Office Buildings	40%	42%
Medical Office Buildings	17%	18%
Retail Centers	13%	13%
Multifamily Properties	15%	11%
Industrial/Flex Centers	15%	16%

The accounting policies of each of the segments are the same as those described in Note 2. We evaluate performance based upon operating income from the combined properties in each segment. Our reportable operating segments are consolidations of similar properties. SFAS No.131, Disclosures about Segments of an Enterprise and Related Information, requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing segments performance. Net operating income is a key measurement of our segment profit and loss. Net operating income is defined as segment real estate rental revenues less segment real estate expenses.

The following table presents revenues and net operating income for the 2008 and 2007 Quarters from these segments, and reconciles net operating income of reportable segments to operating income as reported (in thousands):

	Three Months Ended September 30, 2008						
	Office Buildings	Medical Office Buildings	Retail Centers	Multifamily	Industrial/Flex Centers	Corporate And Other	Consolidated
Real estate rental revenue	$ 29,375	$ 11,041	$ 10,260	$ 9,722	$ 10,241	$	$ 70,639
Real estate expenses	11,069	3,617	2,189	4,404	2,752		24,031
Net operating income	18,306	7,424	8,071	5,318	7.489		46,608
Depreciation and amortization							(21,422)
Interest expense							(17,148)
General and administration expense							(2,780)
Other income							338
Gain from non-disposal activities							17
Income from discontinued operations							266
Net income							$ 5,879
Capital expenditures	$ 3,106	$ 775	$ 1,145	$ 1,841	$ 1,983	$ 388	$ 9,238
Total assets	$ 773,174	$ 347,771	$ 235,213	$ 262,681	$ 272,317	$ 79,536	$ 1,970,692

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	Three Months Ended September 30, 2007						
	Office Buildings	Medical Office Buildings	Retail Centers	Multifamily	Industrial/Flex Centers	Corporate And Other	Consolidated
Real estate rental revenue	$ 25,981	$ 10,305	$ 10,061	$ 8,108	$ 9,831	$	$ 64,286
Real estate expenses	8,983	3,238	2,098	3,499	2,203		20,021
Net operating income	16,998	7,067	7,963	4,609	7,628		44,265
Depreciation and amortization							(17,852)
Interest expense							(15,824)
General and administration expense							(3,174)
Other income							357
Gain on sale of real estate							25,022
Income from discontinued operations							1,596
Net income							$ 34,390
Capital expenditures	$ 13,224	$ 1,851	$ 4,765	$ 12,580	$ 1,998	$ 1,011	$ 35,429
Total assets	$ 691,062	$ 347,889	$ 232,428	$ 202,480	$ 290,907	$ 81,035	$ 1,845,801

	Nine Months Ended September 30, 2008						
	Office Buildings	Medical Office Buildings	Retail Centers	Multifamily	Industrial/Flex Centers	Corporate And Other	Consolidated
Real estate rental revenue	$ 87,794	$ 32,643	$ 31,247	$ 26,643	$ 30,900	$	$ 209,227
Real estate expenses	31,424	10,566	6,872	12,375	7,864		69,101
Net operating income	56,370	22,077	24,375	14,268	23,036		140,126
Depreciation and amortization							(62,799)
Interest expense							(52,395)
General and administration expense							(8,971)
Other income							796
Gain from non-disposal activities							17
Loss on extinguishment of debt							(8,449)
Gain on sale of real estate							15,275
Income from discontinued operations							1,999
Net income							$ 25,599
Capital expenditures	$ 11,019	$ 3,849	$ 2,801	$ 4,792	$ 4,405	$ 612	$ 27,478

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	Nine Months Ended September 30, 2007						
	Office Buildings	Medical Office Buildings	Retail Centers	Multifamily	Industrial/Flex Centers	Corporate And Other	Consolidated
Real estate rental revenue	$ 75,528	$ 27,077	$ 30,814	$ 23,249	$ 29,263	$	$ 185,931
Real estate expenses	25,517	8,325	6,643	9,911	7,130		57,526
Net operating income	50,011	18,752	24,171	13,338	22,133		128,405
Depreciation and amortization							(50,310)
Interest expense							(45,498)
General and administration expense							(11,424)
Other income							1,395
Gain from non-disposal activities							1,303
Gain on sale of real estate							25,022
Income from discontinued operations							4,546
Net income							$ 53,439
Capital expenditures	$ 14,240	$ 3,289	$ 2,644	$ 6,103	$ 3,193	$ 2,912	$ 32,381

NOTE 9: SHAREHOLDERS EQUITY

During the second quarter of 2008, WRIT completed a public offering of 2.6 million common shares priced at $34.80 per share, raising $86.7 million in net proceeds. The net proceeds were used for the repayment of debt under our lines of credit.

During the 2008 Quarter, WRIT entered into a Sales Agency Financing Agreement with BNY Mellon Capital Markets, LLC relating to the issuance and sale of up to $150.0 million of the Company s common shares from time to time over a period of no more than 36 months. Sales of the shares are made at market prices prevailing at the time of sale. Net proceeds for the sale of shares under this program are used for the repayment of borrowings under our lines of credit, acquisitions, and general corporate purposes. As of the end of the 2008 Quarter, WRIT had issued 1.1 million common shares at a weighted average price of $36.15 under a Sales Agency Financing Agreement, raising $40.7 million in net proceeds.

WRIT has a Dividend Reinvestment Program, whereby shareholders may use their dividends and optional cash payments to purchase common shares. Net proceeds under this program are used for general corporate purposes. For the 2008 Quarter, 38,240 common shares were issued at a weighted average price of $35.06 per share, raising $1.3 million in net proceeds. For the 2008 Period, 117,730 common shares were issued at a weighted average price of $33.13 per share, raising $3.9 million in net proceeds.

During the second quarter of 2007, WRIT completed a public offering of 1.6 million common shares priced at $37.00 per share, raising $57.8 million in net proceeds. The net proceeds were used for the repayment of debt.

NOTE 10: SUBSEQUENT EVENTS

On October 1, 2008 WRIT completed a $60.4 million equity offering of 1.725 million common shares at a price of $35.00 per share. WRIT used the proceeds of the offering to repay all outstanding borrowings under its lines of credit and for general corporate purposes.

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ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto appearing in Item 1 of this report and the more detailed information contained in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission on February 29, 2008.

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States generally accepted accounting principles (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an on-going basis, we evaluate these estimates, including those related to useful lives of real estate assets, cost reimbursement income, bad debts, impairment, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. There can be no assurance that actual results will not differ from those estimates.

The discussion that follows is based on our consolidated results of operations for the three and nine months ended September 30, 2008, the 2008 Quarter and 2008 Period , respectively, and the three and nine months ended September 30, 2007, the 2007 Quarter and 2007 Period , respectively.

Forward Looking Statements

We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for the statements contained herein. The following important factors, in addition to those discussed elsewhere in our 2007 Annual Report on Form 10-K under the caption Risk Factors , could affect our future results and could cause those results to differ materially from those expressed in the forward-looking statements: (a) the economic health of our tenants; (b) the economic health of the greater Washington metro region, or other markets we may enter, including the effects of changes in Federal government spending; (c) the supply of competing properties; (d) inflation; (e) consumer confidence; (f) unemployment rates; (g) consumer tastes and preferences; (h) stock price and interest rate fluctuations; (i) our future capital requirements; (j) compliance with applicable laws, including those concerning the environment and access by persons with disabilities; (k) governmental or regulatory actions and initiatives; (l) changes in general economic and business conditions; (m) changes in the capital markets; (n) terrorist attacks or actions; (o) acts of war; (p) weather conditions; (q) the effects of changes in capital available to the technology and biotechnology sectors of the economy, and (r) other factors discussed under the caption Risk Factors. We undertake no obligation to update our forward-looking statements or risk factors to reflect new information, future events, or otherwise.

Overview

Our revenues are derived primarily from the ownership and operation of income-producing real properties in the greater Washington metro region. As of September 30, 2008, we owned a diversified portfolio of 92 properties, consisting of 14 retail centers, 27 general purpose office properties, 17 medical office buildings, 22 industrial/flex properties and 12 multifamily properties, totaling 13.0 million net rentable square feet, and land held for development. We have a fundamental strategy of regional focus, diversification by property type and conservative capital management.

When evaluating our financial condition and operating performance, management focuses on the following financial and non-financial indicators, discussed in further detail herein:

- Net Operating Income (NOI) by segment. NOI is calculated as real estate rental revenue less real estate operating expenses. NOI is a non-GAAP supplemental measure to net income.

- Economic occupancy (or occupancy defined as actual rental revenues recognized for the period indicated as a percentage of gross potential rental revenues for that period), leased percentage (the percentage of available physical net rentable area leased for our commercial segments and percentage of apartment units leased for our multifamily segment) and rental rates.

- Leasing activity new leases, renewals and expirations.

Funds From Operations (FFO   ). FFO is calculated as set forth under the caption   Funds from Operations.   FFO is a non -GAAP supplemental measure to net income.

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Our results in the 2008 Quarter as compared to the 2007 Quarter showed NOI growth in all sectors except industrial/flex, primarily due to rental rate growth offset by a decrease in overall occupancy. Our results also benefited from the NOI contributions of the acquisitions in the last two years. The decrease in NOI in the industrial sector is primarily due to lower occupancy and higher bad debt expense. We substantially completed construction at Bennett Park in the fourth quarter of 2007, and began delivering units at The Clayborne in the first quarter of 2008. The two properties were 71% and 55% leased at the end of the 2008 quarter, respectively. Phase I of the office development at Dulles Station was placed into service during the 2008 Quarter, and is 86% leased.

GENERAL

During the 2008 Period we completed the following significant transactions:

- The acquisition of one industrial/flex property for $11.2 million, adding approximately 150,000 square feet which was 100% leased at the end of the 2008 Period.
- The acquisition of one medical office building for $6.5 million, adding approximately 36,000 square feet which was 100% leased at the end of the 2008 Period.
- The acquisition of one 374-unit apartment building for $58.3 million, adding approximately 269,000 square feet which was 96% leased at the end of the 2008 Period.
- The sale of two industrial properties for a contract sales price of $41.1 million, resulting in a gain on sale of $15.3 million.
- An agreement to acquire one medical office property, currently under construction, for $19.5 million. The purchase is expected to occur by the first quarter of 2009 and will add 85,300 square feet of medical office space.
- The completion of a public offering of 2,600,000 common shares priced at $34.80 per share, raising $86.7 million in net proceeds.
- The issuance of 1,141,410 common shares at weighted average price of $36.15 under a Sales Agency Financing Agreement, raising $40.7 million in net proceeds.
- The execution of three mortgage notes totaling approximately $81.0 million at a fixed rate of 5.71%, secured by three multifamily properties.
- The repayment of the $60 million outstanding principal balance under 6.74% 10-year Mandatory Par Put Remarketed Securities (MOPPRS) notes. The total aggregate consideration paid to repurchase the notes was $70.8 million, which amount included the $8.7 million remarketing option value paid to the remarketing dealer and accrued interest paid to the holders. The loss on extinguishment of debt was $8.4 million, net of unamortized loan premium costs, upon settlement of these securities. WRIT refinanced the repurchase of these notes, and refinanced a portion of line outstandings, by issuing a $100 million 2-year term loan. WRIT also entered into an interest rate swap on a notional amount of $100 million, which had the effect of fixing the interest rate on the term loan at 4.45%.

The exercise of the right to increase the capacity of the unsecured revolving credit facility with a syndicate of banks led by Wells Fargo Bank, National Association from $200 million to $262 million.

The execution of two leases totaling 154,000 square feet at the previously unleased Dulles Station, Phase I office building. In addition to those leases, we executed new leases for 458,000 square feet of commercial space elsewhere in our portfolio, with an average rental rate increase of 20.9%.

During the 2007 Period we completed the following significant transactions:

The acquisition of two general office properties for $96.4 million adding approximately 278,000 square feet, four medical office properties for $119.1 million adding approximately 362,000 square feet, one industrial/flex property for $26.5 million adding approximately 157,000 square feet, and land held for development for $3.8 million.

The disposition of two office buildings for a contract sales price of $58.0 million and a gain on sale of $25.0 million.

The issuance of $150.0 million of 3.875% unsecured convertible notes due 2026 at an effective yield of 4.003% raising $146.0 million in net proceeds.

The completion of a public offering of 1,600,000 common shares priced at $37.00 per share raising $57.8 million in net proceeds.

The opening of a new unsecured revolving credit facility with SunTrust Bank with a committed capacity of $75.0 million and a maturity date of June 29, 2011.

The completion of modification to our bond covenants from a restrictive total assets definition to a market based asset definition.

The investment of $53.3 million in our development projects.

The execution of new leases for 1,223,000 square feet of commercial space.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our consolidated financial statements. Our significant accounting policies are described in Note 2 in the Notes to the Consolidated Financial Statements.

Revenue Recognition

Residential properties (our multifamily segment) are leased under operating leases with terms of generally one year or less, and commercial properties (our office, medical office, retail and industrial segments) are leased under operating leases with average terms of three to seven years. We recognize rental income and rental abatements from our residential and commercial leases when earned on a straight-line basis in accordance with SFAS No. 13 Accounting for Leases. Recognition of rental income commences when control of the facility has been given to the tenant. We record a provision for losses on accounts receivable equal to the estimated uncollectible amounts. This estimate is based on our historical experience and a review of the current status of the Company s receivables. Percentage rents, which represent additional rents based on gross tenant sales, are recognized when tenants sales exceed specified thresholds.

In accordance with SFAS No. 66, Accounting for Sales of Real Estate, sales are recognized at closing only when sufficient down payments have been obtained, possession and other attributes of ownership have been transferred to the buyer and we have no significant continuing involvement.

We recognize cost reimbursement income from pass-through expenses on an accrual basis over the periods in which the expenses were incurred. Pass-through expenses are comprised of real estate taxes, operating expenses and common area maintenance costs which are reimbursed by tenants in accordance with specific allowable costs per tenant lease agreements.

Provision for Doubtful Accounts

Accounts receivable primarily represents amounts accrued and unpaid from tenants in accordance with the terms of the respective leases, subject to our revenue recognition policy. Receivables are reviewed monthly and reserves are established when, in the opinion of management, collection of the receivable is doubtful. In addition to rents due currently, accounts receivable include amounts representing minimal rental income accrued on a straight-line basis to be paid by tenants over the remaining term of their respective leases. Reserves are established for tenants whose rent payment history or financial condition casts doubt upon the tenant s ability to perform under its lease obligation.

When the collection of a receivable is deemed doubtful in the same quarter that the receivable was established, then the allowance for that receivable is recognized as an offset to real estate revenues. When a receivable that was established in a prior quarter is deemed doubtful, then the allowance is recognized as an operating expense.

Capital Expenditures

We capitalize those expenditures related to acquiring new assets, significantly increasing the value of an existing asset, or substantially extending the useful life of an existing asset. We also capitalize costs incurred in connection with our development projects, including capitalizing interest during periods in which development projects are in progress. Expenditures necessary to maintain an existing property in ordinary operating condition are expensed as incurred. In addition, we capitalize tenant leasehold improvements when certain conditions are met, including when we supervise construction and will own the improvements.

Real Estate Assets

Real estate assets are depreciated on a straight-line basis over estimated useful lives ranging from 28 to 50 years. All capital improvement expenditures associated with replacements, improvements, or major repairs to real property are depreciated using the straight-line method over their estimated useful lives ranging from 3 to 30 years. All tenant improvements are amortized over the shorter of the useful life or the term of the lease.

We allocate the purchase price of acquired properties to the related physical assets and in-place leases based on their fair values, based on SFAS No. 141, Business Combinations. The fair values of acquired buildings are determined on an as-if-vacant basis considering a variety of factors, including the physical condition and quality of the buildings, estimated rental and absorption rates, estimated future cash flows and valuation assumptions consistent with current market conditions. The as-if-vacant fair value is allocated to land, building and tenant improvements based on property tax assessments and other relevant information obtained in connection with the acquisition of the property.

The fair value of in-place leases consists of the following components (1) the estimated cost to us to replace the leases, including foregone rents during the period of finding a new tenant and foregone recovery of tenant pass-through expenses (referred to as Absorption Cost), (2) the estimated cost of tenant improvements, and other direct costs associated with obtaining a new tenant (referred to as Tenant Origination Cost); (3) the estimated leasing commissions associated with obtaining a new tenant (referred to as Leasing Commissions); (4) the above/at/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as Net Lease Intangible); and (5) the value, if any, of customer relationships, determined based on our evaluation of the specific characteristics of each tenant s lease and our overall relationship with the tenant (referred to as Customer Relationship Value).

The amounts used to calculate Net Lease Intangibles are discounted using an interest rate which reflects the risks associated with the leases acquired. Tenant Origination Costs are included in real estate assets on our balance sheet and are amortized as depreciation expense on a straight-line basis over the remaining life of the underlying leases. Leasing Commissions and Absorption Costs are classified as other assets and are amortized as amortization expense on a straight-line basis over the remaining life of the underlying leases. Net Lease Intangible assets are classified as other assets and are amortized on a straight-line basis as a decrease to real estate rental revenue over the remaining term of the underlying leases. Net Lease Intangible liabilities are classified as other liabilities and are amortized on a straight-line basis as an increase to real estate rental revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, the unamortized portions of the Tenant Origination Cost, Leasing Commissions, Absorption Costs and Net Lease Intangible associated with that lease are written off to depreciation expense, amortization expense, and real estate rental revenue, respectively. We have attributed no value to Customer Relationship Value as of September 30, 2008 or December 31, 2007.

Impairment Losses on Long-Lived Assets

We recognize impairment losses on long-lived assets used in operations when indicators of impairment are present and the net undiscounted cash flows estimated to be generated by those assets are less than the assets carrying amount. If such carrying amount is in excess of the estimated cash flows from the operation and disposal of the property, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to the estimated fair market value. There were no property impairments recognized during the first nine months of 2008 and 2007.

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Federal Income Taxes

We believe that we qualify as a Real Estate Investment Trust (REIT) under Sections 856-860 of the Internal Revenue Code and intend to continue to qualify as such. To maintain our status as a REIT, we are required to distribute at least 90% of our ordinary taxable income to our shareholders. When selling properties, we have the option of (i) reinvesting the sale price of properties sold, allowing for a deferral of income taxes on the sale, (ii) paying out capital gains to the shareholders with no tax to the company or (iii) treating the capital gains as having been distributed to the shareholders, paying the tax on the gain deemed distributed and allocating the tax paid as a credit to the shareholders. In June 2008, two industrial properties, Sullyfield Center and The Earhart Building, were sold for a gain of $15.3 million. The proceeds from the sale are expected to be reinvested in a replacement property.

RESULTS OF OPERATIONS

The discussion that follows is based on our consolidated results of operations for the Quarters and Periods ended September 30, 2008 and 2007. The ability to compare one period to another may be significantly affected by acquisitions completed and dispositions made during those periods.

For purposes of evaluating comparative operating performance, we categorize our properties as core , non-core or discontinued operations. A core property is one that was owned for the entirety of the periods being evaluated. A non-core property is one that was acquired during either of the periods being evaluated and is included in continuing operations. Results for properties sold or held for sale during any of the periods evaluated are classified as discontinued operations. One property was acquired during the 2008 Quarter and one property and land for development were acquired during the 2007 Quarter. Five properties were classified as held for sale or sold during the 2008 and 2007 Quarters.

To provide more insight into our operating results, our discussion is divided into two main sections: (1) Consolidated Results of Operations where we provide an overview analysis of results on a consolidated basis and (2) Net Operating Income (NOI) where we provide a detailed analysis of core versus non-core property-level NOI results by segment. NOI is calculated as real estate rental revenue less real estate expenses.

CONSOLIDATED RESULTS OF OPERATIONS

REAL ESTATE RENTAL REVENUE

Real estate rental revenue for properties classified as continuing operations is summarized as follows (all data in thousands, except percentage amounts):

	Quarter Ended September 30,				Period Ended September 30,			
			Change				Change	
	2008	2007	$	%	2008	2007	$	%
Minimum base rent	$ 61,857	$ 57,286	$ 4,571	8.0%	$ 183,169	$ 164,569	$ 18,600	11.3%
Recoveries from tenants	8,113	6,316	1,797	28.5%	23,822	18,482	5,340	28.9%
Parking and other tenant charges	669	684	(15)	(2.2)%	2,236	2,880	(644)	(22.3)%
	$ 70,639	$ 64,286	$ 6,353	9.9%	$ 209,227	$ 185,931	$ 23,296	12.5%

Real estate rental revenue is comprised of (1) minimum base rent, which includes rental revenues recognized on a straight-line basis, (2) revenue from the recovery of operating expenses from our tenants and (3) other revenue such as parking, termination fees and percentage rent.

Minimum base rent increased $4.6 million in the 2008 Quarter compared to the 2007 Quarter primarily due to acquisitions and development properties placed into service in 2007 and 2008. These acquisitions and development properties accounted for $4.4 million of the increase in minimum base rent in the 2008 Quarter over the 2007 Quarter and $0.5 million of the increase in recoveries from tenants. Minimum base rent from core properties in the 2008 Quarter increased $0.2 million over the prior year driven by rental rate growth in all sectors offset by a decrease in core economic occupancy.

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Minimum base rent increased $18.6 million in the 2008 Period compared to the 2007 Period primarily due to the acquisitions in 2007 and 2008. These acquisitions accounted for $16.3 million of the minimum rent increase and $2.7 million of the increase in recoveries from tenants. Minimum base rent from core properties in the 2008 Period increased by $2.3 million due to rental rate growth in all sectors.

A summary of consolidated economic occupancy from continuing operations by sector follows:

	Quarter Ended September 30,			Period Ended September 30,		
Sector	2008	2007	Change	2008	2007	Change
Office Buildings	90.2%	94.9%	(4.7)%	93.2%	94.3%	(1.1)%
Medical Office Buildings	95.8%	99.7%	(3.9)%	96.9%	98.4%	(1.5)%
Retail Centers	94.4%	95.0%	(0.6)%	94.9%	94.9%	%
Multifamily Properties	84.9%	91.6%	(6.7)%	81.3%	90.7%	(9.4)%
Industrial/Flex Centers	92.9%	95.4%	(2.5)%	93.6%	95.2%	(1.6)%
Total	91.1%	95.2%	(4.1)%	92.2%	94.6%	(2.4)%

Economic occupancy represents actual rental revenues recognized for the period indicated as a percentage of gross potential rental revenues for that period. Percentage rents and expense reimbursements are not considered in computing economic occupancy percentages.

Our overall consolidated economic occupancy decreased by 4.1% for the 2008 Quarter over the 2007 Quarter. The overall decrease was led by the multifamily sector, which decreased by 6.7% due to the multifamily development properties, Bennett Park and Clayborne, being placed into service during fourth quarter 2007 and first quarter 2008. The properties are in lease-up and were 71% and 55% leased, respectively, as of the end of the 2008 Quarter. Occupancy in the office sector decreased by 4.7% primarily due to vacant space at Dulles Station, 2000 M Street and One Central Plaza. Dulles Station was placed into service during the 2008 Quarter, and leases for 86% of the available space had been signed by quarter-end. The occupancy decreases in the other commercial sectors are reflective of a weakening economy.

Consolidated economic occupancy was 92.2% for the 2008 Period, a decrease of 2.4% compared to the 2007 Period. Occupancy at the various sectors was impacted by the activity in the third quarter, discussed above.

REAL ESTATE EXPENSES

Real estate expenses for properties classified as continuing operations are summarized as follows (all data in thousands, except percentage amounts):

	Quarter Ended September 30,				Period Ended September 30,			
			Change				Change	
	2008	2007	$	%	2008	2007	$	%
Property operating expenses	$ 16,783	$ 14,291	$ 2,492	17.4%	$ 48,514	$ 41,487	$ 7,027	16.9%
Real estate taxes	7,248	5,730	1,518	26.5%	20,587	16,039	4,548	28.4%
	$ 24,031	$ 20,021	$ 4,010	20.0%	$ 69,101	$ 57,526	$ 11,575	20.1%

Property operating expenses include utilities, repairs and maintenance, property administration and management, operating services, common area maintenance and other operating expenses.

Real estate expenses were 34.0% of revenue in the 2008 Quarter and 31.1% of the revenue in the 2007 Quarter. The properties acquired or placed into service in 2007 and 2008 accounted for a $1.9 million increase in property operating expenses. The $0.6 million increase in property operating expenses from core properties is due to higher administrative and maintenance costs. The properties acquired or placed into service in 2007 and 2008 also accounted for $0.8 million of the $1.5 million increase real estate taxes. The $0.7 million increase in real estate taxes for core properties was due to higher property assessments across the portfolio.

Real estate expenses were 33.0% of revenue for the 2008 Period and 30.9% of revenue for the 2007 Period. The properties acquired or placed into service in 2007 and 2008 accounted for $6.7 million of the $7.0 million increase in property operating expenses, and $2.9 million of the $4.5 million increase in real estate taxes over the 2007 Period. Real estate taxes increased due to higher assessments across the portfolio.

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OTHER EXPENSES

Other expenses are summarized as follows (all data in thousands, except percentage amounts):

	Quarter Ended September 30,				Period Ended September 30,			
			Change				Change	
	2008	2007	$	%	2008	2007	$	%
Depreciation & amortization	$ 21,422	$ 17,852	$ 3,570	20.0%	$ 62,799	$ 50,310	$ 12,489	24.8%
Interest expense	17,148	15,824	1,324	8.4%	52,395	45,498	6,897	15.2%
Loss on extinguishment of debt					8,449		8,449	
General & administrative	2,780	3,174	(394)	(12.4)%	8,971	11,424	(2,453)	(21.5)%
	$ 41,350	$ 36,850	$ 4,500	12.2%	$ 132,614	$ 107,232	$ 25,382	23.7%

Depreciation and amortization expense increased $3.6 million to $21.4 million in the 2008 Quarter from $17.9 million in the 2007 Quarter and $12.5 million to $62.8 million in the 2008 Period from $50.3 million in the 2007 Period due primarily to acquisitions, development properties placed into service, capital expenditures and tenant improvements.

General and administrative expenses decreased by $0.4 million and $2.4 million in the 2008 Quarter and Period, respectively. This decrease is due primarily to lower incentive compensation expense.

The loss on extinguishment of debt is a non-recurring charge associated with the extinguishment of $60 million of 10-year Mandatory Par Put Remarketed Securities (MOPPRS). The securities were refinanced with a $100 million 2-year term loan in February 2008. WRIT also entered into an interest rate swap on a notional amount of $100 million, which had the effect of fixing the interest rate on the term loan at 4.45%.

Interest expense increased $1.3 million and $6.9 million in the 2008 Quarter and Period, respectively. The increases are due to lower capitalized interest due to placing development properties into service at the end of 2007 and during 2008, as well higher mortgage interest caused by entering into three mortgage notes on multifamily properties during the second quarter of 2008. The proceeds of the mortgage notes were used to pay down floating rate credit facility debt. The quarter over quarter variance is partially offset by lower interest on lines of credit due to paydowns made during the second and third quarters of 2008. The period over period variance reflects higher interest on lines of credit, which were used to partially fund 2007 and 2008 acquisitions.

A summary of interest expense for the Quarter and Period ended September 30, 2008 and 2007, respectively, appears below (in millions):

	Quarter Ended September 30,			Period Ended September 30,		
Debt Type	2008	2007	$ Change	2008	2007	$ Change
Notes payable	$ 11.9	$ 11.9	$	$ 36.0	$ 35.3	$ 0.7
Mortgages	5.0	3.8	1.2	12.9	10.7	2.2
Lines of credit	0.6	1.8	(1.2)	5.4	4.1	1.3
Capitalized interest	(0.4)	(1.7)	1.3	(1.9)	(4.6)	2.7
Total	$ 17.1	$ 15.8	$ 1.3	$ 52.4	$ 45.5	$ 6.9

OTHER INCOME

In March 2007, upon the death of a retired executive officer, the Company, as beneficiary on a life insurance policy, recognized proceeds of $1.3 million in excess of cash surrender value, which has been reported as other income in the financial statements for the 2007 Period.

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DISCONTINUED OPERATIONS

We dispose of assets that are inconsistent with our long-term strategic or return objectives and where market conditions for sale are favorable. The proceeds from the sales are reinvested into other properties, used to fund development operations, support corporate needs, or distributed to our shareholders.

WRIT did not dispose of any assets in the 2008 Quarter.

We sold two properties in 2007 and two properties in the second quarter of 2008. Maryland Trade Centers I and II were classified as held for sale as of March 31, 2007 and sold as of September 26, 2007. They were sold for a contract sales price of $58.0 million, and we recognized a gain on disposal of $25.0 million, in accordance with SFAS No. 66, Accounting for Sales of Real Estate. $15.3 million of the proceeds from the disposition was used to fund the purchase of CentreMed I & II on August 16, 2007 in a reverse tax free property exchange, and $40.1 million of the proceeds from the disposition were escrowed in a tax free property exchange account and subsequently used to fund a portion of the purchase price of 2000 M Street on December 4, 2007.

Sullyfield Center and The Earhart Building were classified as held for sale in November 2007 and sold in June 2008. They were sold for a contract sales price of $41.1 million, and we recognized a gain on sale of $15.3 million, in accordance with SFAS No. 66, Accounting for Sales of Real Estate. The proceeds from the sale were escrowed into a tax free property exchange account that may be used for the acquisition of a new property.

In September 2008 we concluded that Avondale, a multifamily property, met the criteria specified in SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, necessary to classify this property as held for sale. Senior management has committed to a plan to sell the asset, and the sale is expected to be completed in one year under terms usual and customary for such sales, with no indication that the plan will be significantly altered or abandoned. Depreciation on this property was discontinued at that time, but operating revenues and other operating expenses continue to be recognized until the date of the sale. Under SFAS No. 144, revenues and expenses of properties that are classified as held for sale or sold are treated as discontinued operations for all periods presented in the consolidated statements of income.

Operating results of the properties classified as discontinued operations for the 2008 and 2007 Quarters and Periods are summarized as follows (in thousands):

	Quarter ended September 30,			Period ended September 30,		
	2008	2007	$ Change	2008	2007	$ Change
Revenues	$ 757	$ 3,465	$ (2,708)	$ 4,145	$ 10,447	$ (6,302)
Property expenses	(368)	(1,436)	1,068	(1,677)	(4,271)	2,594
Depreciation and amortization	(123)	(433)	310	(469)	(1,630)	1,161
	$ 266	$ 1,596	$ (1,330)	$ 1,999	$ 4,546	$ (2,547)

NET OPERATING INCOME

NOI is one of the key performance measures we use to assess the results of our operations at the property level. We provide NOI as a supplement to net income calculated in accordance with GAAP. NOI does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. NOI is calculated as real estate rental revenue less real estate operating expenses. We believe that NOI is a useful supplemental measure of our property operating performance because it provides a performance measure of the revenues and expenses directly involved in owning real estate assets, and provides a perspective not immediately apparent from net income. This presentation provides management and investors greater insight into the performance of the Company s properties and useful information for evaluating the period over period operating performance of its portfolio. A reconciliation of NOI to net income is provided below.

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2008 Quarter Compared to the 2007 Quarter

The following tables of selected consolidated operating data provide the basis for our discussion of NOI in the 2008 Quarter compared to the 2007 Quarter. All amounts are in thousands except percentage amounts.

	Three Months Ended September 30,			
	2008	**2007**	**$ Change**	**% Change**
Real Estate Rental Revenue				
Core	$ 65,303	$ 64,001	$ 1,302	2.0%
Non-core [1]	5,336	285	5,051	
Total real estate rental revenue	$ 70,639	$ 64,286	$ 6,353	9.9%
Real Estate Expenses				
Core	$ 20,983	$ 19,613	$ 1,370	7.0%
Non-core [1]	3,048	408	2,640	647.1%
Total real estate expenses	$ 24,031	$ 20,021	$ 4,010	20.0%
Net Operating Income				
Core	$ 44,320	$ 44,388	$ (68)	(0.2)%
Non-core [1]	2,288	(123)	2,411	
Total NOI	$ 46,608	$ 44,265	$ 2,343	5.3%

Reconciliation to Net Income		
NOI	$ 46,608	$ 44,265
Other income	338	357
Interest expense	(17,148)	(15,824)
Depreciation and amortization	(21,422)	(17,852)
General and administrative expenses	(2,780)	(3,174)
Gain from non-disposal activities	17	
Gain on sale of real estate		25,022
Discontinued operations[2]	266	1,596
Net income	$ 5,879	$ 34,390

	Three Months Ended September 30,	
Economic Occupancy	**2008**	**2007**
Core	93.8%	95.5%
Non-core [1]	66.4%	60.4%
Total	91.1%	95.2%

(1) Non-core properties include:

2008 acquisitions 6100 Columbia Park Road, Sterling Medical Office Building and Kenmore Apartments

2007 acquisitions CentreMed I&II and 2000 M Street

2008 and 2007 in development Bennett Park, Clayborne Apartments and Dulles Station

(2) Discontinued operations include income from operations for:
2008 and 2007 sold properties Sullyfield Center, The Earhart Building and Maryland Trade Centers I & II

2008 held for sale property Avondale

We recognized NOI of $46.6 million in the 2008 Quarter, which was $2.3 million greater than in the 2007 Quarter due primarily to our acquisitions in 2007 and 2008. The non-core properties contributed all of the increase in NOI in the 2008 Quarter.

Core properties experienced a $0.1 million decrease in NOI due to a $1.3 million increase in real estate rental revenue offset by a $1.4 million increase in real estate expenses. Core real estate rental revenue benefited from increased rental rates, partially offset by lower occupancy. The increase in core expenses was driven by higher real estate taxes in all sectors due to higher property assessments.

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Overall economic occupancy decreased to 91.1% from 95.2% as core economic occupancy decreased from 95.5% to 93.8%, with decreases occurring in all sectors. Non-core economic occupancy increased from 60.4% to 66.4%, reflecting the continuing lease-up of development properties placed into service during 2007 and 2008. As of September 30, 2008, 13.1% of the total commercial square footage leased is scheduled to expire in the next twelve months. During the 2008 Quarter we executed new leases for 458,100 square feet at an average rental rate increase of 20.9%. An analysis of NOI by sector follows.

Office Sector

	Three Months Ended September 30,			
	2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 26,578	$ 25,981	$ 597	2.3%
Non-core [(1)]	2,797		2,797	%
Total real estate rental revenue	$ 29,375	$ 25,981	$ 3,394	13.1%
Real Estate Expenses				
Core	$ 9,455	$ 8,845	$ 610	6.9%
Non-core [(1)]	1,614	138	1,476	
Total real estate expenses	$ 11,069	$ 8,983	$ 2,086	23.2%
Net Operating Income				
Core	$ 17,123	$ 17,136	$ (13)	(0.1)%
Non-core [(1)]	1,183	(138)	1,321	957.2%
Total NOI	$ 18,306	$ 16,998	$ 1,308	7.7%

	Three Months Ended September 30,	
Economic Occupancy	**2008**	**2007**
Core	92.5%	94.9%
Non-core [(1)]	70.9%	N/A
Total	90.2%	94.9%

(1) Non-core properties include:

2008 and 2007 in development Dulles Station

2007 acquisition 2000 M Street

The office sector recognized NOI of $18.3 million in the 2008 Quarter, which was $1.3 million higher than in the 2007 Quarter due to the NOI contribution of the property acquired in 2007. This property contributed the entire increase in NOI. Core office sector NOI was flat due to higher rental rates being offset by lower occupancy and higher real estate taxes.

Core economic occupancy decreased to 92.5% from 94.9% as a result of tenants vacating at Lexington and One Central Plaza. Non-core economic occupancy was 70.9% primarily due to vacancies at Phase I of Dulles Station, which was placed into service during the 2008 Quarter. The property was 86% leased by quarter-end.

As of September 30, 2008, 11.9% of the total office square footage leased is scheduled to expire in the next twelve months. We executed new leases for 121,700 square feet of office space with an average rental rate increase of 16.1%.

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Medical Office Sector

	Three Months Ended September 30,			
	2008	**2007**	**$ Change**	**% Change**
Real Estate Rental Revenue				
Core	$ 10,453	$ 10,087	$ 366	3.6%
Non-core[1]	588	218	370	169.7%
Total real estate rental revenue	$ 11,041	$ 10,305	$ 736	7.1%
Real Estate Expenses				
Core	$ 3,382	$ 3,180	$ 202	6.4%
Non-core[1]	235	58	177	305.2%
Total real estate expenses	$ 3,617	$ 3,238	$ 379	11.7%
Net Operating Income				
Core	$ 7,071	$ 6,907	$ 164	2.4%
Non-core[1]	353	160	193	120.6%
Total NOI	$ 7,424	$ 7,067	$ 357	5.1%

	Three Months Ended September 30,	
Economic Occupancy	**2008**	**2007**
Core	96.7%	99.6%
Non-core [1]	81.2%	100.0%
Total	95.8%	99.7%

(1) Non-core properties include:

2008 acquisition Sterling Medical Office Building

2007 acquisition CentreMed I&II

The medical office sector recognized NOI of $7.4 million in the 2008 Quarter which was $0.4 million higher than the 2007 Quarter. The acquired properties contributed $0.2 million to the increase in NOI, while core medical office sector NOI increased $0.2 million due to higher rental rates offset by lower occupancy and higher real estate taxes.

Core economic occupancy decreased to 96.7% from 99.6% due to vacancies at 2440 M Street, 8301 Arlington Boulevard and Alexandria Professional Center. Non-core occupancy decreased to 81.2% from 100.0%, reflecting the impact of vacant space at Sterling Medical Office Building, which was acquired during the second quarter of 2008. The sellers of Sterling Medical Office Building are reimbursing us for this vacant space for a period of 12 18 months under the terms of the sale agreement. As of September 30, 2008, 9.7% of the total medical office square footage leased is scheduled to expire in the next twelve months. We executed new leases for 61,300 square feet of medical office space with an average rental rate increase of 13.2%.

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Retail Sector

	Three Months September 30, 2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Total	$ 10,260	$ 10,061	$ 199	2.0%
Real Estate Expenses				
Total	$ 2,189	$ 2,098	$ 91	4.3%
Net Operating Income				
Total	$ 8,071	$ 7,963	$ 108	1.4%

Economic Occupancy	Three Months Ended September 30, 2008	2007
Total	94.4%	95.0%

Retail sector NOI increased slightly in the 2008 Quarter from the 2007 Quarter due to higher rental rates, offset by lower occupancy and higher real estate taxes.

Economic occupancy decreased to 94.4% from 95.0% due to higher vacancy at Westminster Shopping Center and Montgomery Village Center. As of September 30, 2008, 12.7% of the total retail square footage leased is scheduled to expire in the next twelve months. We executed new leases for 77,600 square feet of retail space at an average rent increase of 32.0%.

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Multifamily Sector

	Three Months Ended September 30			
	2008	**2007**	**$ Change**	**% Change**
Real Estate Rental Revenue				
Core	$ 8,168	$ 8,041	$ 127	1.6%
Non-core [(1)]	1,554	67	1,487	
Total real estate rental revenue	$ 9,722	$ 8,108	$ 1,614	19.9%
Real Estate Expenses				
Core	$ 3,359	$ 3,287	$ 72	2.2%
Non-core [(1)]	1,045	212	833	392.9%
Total real estate expenses	$ 4,404	$ 3,499	$ 905	25.9%
Net Operating Income				
Core	$ 4,809	$ 4,754	$ 55	1.2%
Non-core [(1)]	509	(145)	654	451.0%
Total NOI	$ 5,318	$ 4,609	$ 709	15.4%

	Three Months Ended September 30	
Economic Occupancy	**2008**	**2007**
Core	94.7%	93.4%
Non-core [(1)]	55.1%	27.0%
Total	84.9%	91.6%

[(1)] Non-core properties include:
2008 and 2007 in development Bennett Park and Clayborne Apartments

2008 acquisition Kenmore Apartments

The multifamily sector recognized NOI of $5.3 million in the 2008 Quarter which was $0.7 million higher than the 2007 Quarter. Core NOI was flat, while non-core NOI increased by $0.7 million primarily due to the development properties placed into service during 2007 and 2008.

Total economic occupancy decreased to 84.9% from 91.6% because the newly-developed Bennett Park and Clayborne were placed into service in fourth quarter 2007 and first quarter 2008, respectively, and are in the initial lease-up phase. Bennett Park was 71% leased and Clayborne was 55% leased at the end of the 2008 Quarter.

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Industrial Sector

	Three Months Ended September 30			
	2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 9,844	$ 9,831	$ 13	0.1%
Non-core [1]	397		397	
Total real estate rental revenue	$ 10,241	$ 9,831	$ 410	4.2%
Real Estate Expenses				
Core	$ 2,598	$ 2,203	$ 395	17.9%
Non-core [1]	154		154	
Total real estate expenses	$ 2,752	$ 2,203	$ 549	24.9%
Net Operating Income				
Core	$ 7,246	$ 7,628	$ (382)	(5.0)%
Non-core [1]	243		243	
Total NOI	$ 7,489	$ 7,628	$ (139)	(1.8)%

	Three Months Ended September 30	
Economic Occupancy	**2008**	**2007**
Core	92.7%	95.4%
Non-core [1]	100.0%	N/A
Total	92.9%	95.4%

[1] Non-core properties include:
2008 acquisition 6100 Columbia Park Road

The industrial sector recognized NOI of $7.5 million in the 2008 Quarter, which was $0.1 million (1.8%) lower than in the 2007 Quarter. Core NOI decreased by $0.4 million due to lower occupancy and higher bad debt expense offset by higher rental rates.

Core economic occupancy decreased to 92.7% from 95.4% due to higher vacancy at 270 Technology Park, Ammendale I&II and 8900 Telegraph Road. As of September 30, 2008, 16.0% of the total industrial square footage leased is scheduled to expire in the next twelve months. We executed new leases for 197,500 square feet of industrial space at an average rent increase of 28.7%.

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2008 Period Compared to the 2007 Period

The following tables of selected consolidated operating data provide the basis for our discussion of NOI in the 2008 Period compared to the 2007 Period. All amounts are in thousands except percentage amounts.

	Period Ended September 30,			
	2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 177,399	$ 173,999	$ 3,400	2.0%
Non-core [(1)]	31,828	11,932	19,896	166.7%
Total real estate rental revenue	$ 209,227	$ 185,931	$ 23,296	12.5%
Real Estate Expenses				
Core	$ 55,470	$ 53,530	$ 1,940	3.6%
Non-core [(1)]	13,631	3,996	9,635	241.1%
Total real estate expenses	$ 69,101	$ 57,526	$ 11,575	20.1%
Net Operating Income				
Core	$ 121,929	$ 120,469	$ 1,460	1.2%
Non-core [(1)]	18,197	7,936	10,261	129.3%
Total NOI	$ 140,126	$ 128,405	$ 11,721	9.1%

Reconciliation to Net Income		
NOI	$ 140,126	$ 128,405
Other income	796	1,395
Gain from non-disposal activities	17	1,303
Interest expense	(52,395)	(45,498)
Depreciation and amortization	(62,799)	(50,310)
General and administrative expenses	(8,971)	(11,424)
Loss on extinguishment of debt	(8,449)	
Gain on sale of real estate	15,275	25,022
Discontinued operations[(2)]	1,999	4,546
Net income	$ 25,599	$ 53,439

	Period Ended September 30,	
Economic Occupancy	2008	2007
Core	94.6%	94.5%
Non-core [(1)]	79.6%	95.3%
Total	92.2%	94.6%

(1) Non-core properties include:

2008 acquisitions 6100 Columbia Park Road, Sterling Medical Office Building and Kenmore Apartments

2007 acquisitions 270 Technology Park, Monument II, 2440 M Street, Woodholme Medical Office Building, Woodholme Center, Ashburn Farm Office Park, CentreMed I&II and 2000 M Street

2008 and 2007 in development Bennett Park, Clayborne Apartments and Dulles Station

(2) Discontinued operations include income from operations for:
2008 and 2007 sold properties Sullyfield Center, The Earhart Building, and Maryland Trade Centers I & II
2008 held for sale Avondale

We recognized NOI of $140.1 million in the 2008 Period, which was $11.7 million (9.1%) greater than in the 2007 Period due primarily to our acquisitions in 2007 and 2008. These acquired properties contributed $10.3 million, or 87.5%, of the increase in total NOI.

Core properties experienced a $1.5 million increase in NOI due to a $3.4 million increase in real estate rental revenue offset somewhat by a $1.9 million increase in real estate expenses. Core real estate rental revenue benefited from increased occupancy in the multifamily sector, as well as increased rental rates in all sectors. The increase in core expenses was due to increased real estate taxes caused by higher property assessments across the portfolio.

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Overall economic occupancy decreased from 94.6% in the 2007 Period to 92.2% in the 2008 Period as non-core occupancy decreased. The lower non-core occupancy is due to placing in development multifamily properties, Bennett Park and Clayborne, into service in the fourth quarter 2007 and first quarter 2008, respectively. Also, Phase I of the office development project at Dulles Station was placed into service during the 2008 Period. Core economic occupancy increased from 94.5% to 94.6%, due to increases in the office and multifamily sectors, offset somewhat by a decrease in core medical office and industrial occupancy. As of September 30, 2008, 13.1% of the total commercial square footage leased is scheduled to expire in the next twelve months. During the 2008 Period we executed new leases for 1,200,800 square feet with an average rental rate increase of 16.2%. An analysis of NOI by sector follows.

Office Sector

	Period Ended September 30,			
	2008	**2007**	**$ Change**	**% Change**
Real Estate Rental Revenue				
Core	$ 71,838	$ 70,505	$ 1,333	1.9%
Non-core [1]	15,956	5,023	10,933	217.7%
Total real estate rental revenue	$ 87,794	$ 75,528	$ 12,266	16.2%
Real Estate Expenses				
Core	$ 24,847	$ 24,047	$ 800	3.3%
Non-core [1]	6,577	1,470	5,107	347.4%
Total real estate expenses	$ 31,424	$ 25,517	$ 5,907	23.1%
Net Operating Income				
Core	$ 46,991	$ 46,458	$ 533	1.1%
Non-core [1]	9,379	3,553	5,826	164.0%
Total NOI	$ 56,370	$ 50,011	$ 6,359	12.7%

	Period Ended September 30,	
Economic Occupancy	**2008**	**2007**
Core	94.1%	94.0%
Non-core [1]	89.0%	98.2%
Total	93.2%	94.3%

(1) Non-core properties include:
2008 and 2007 in development Dulles Station

2007 acquisitions Monument II, Woodholme Center and 2000 M Street

The office sector recognized NOI of $56.4 million in the 2008 Period, which was $6.4 million higher than in the 2007 Period due primarily to the NOI contribution of the properties acquired in 2007. Those properties contributed $5.8 million to the increase in total office sector NOI. Core office sector NOI was $0.5 million higher than in the comparable period in 2007 due primarily to increased occupancy and rental rates, offset by higher real estate taxes.

Core economic occupancy increased slightly to 94.1% from 94.0%. Non-core economic occupancy decreased to 89.0% from 98.2%, mainly due to placing Phase I of Dulles Station into service, as well as vacated space at 2000 M Street. Phase I of Dulles Station was 86% leased by period end.

As of September 30, 2008, 11.9% of the total office square footage leased is scheduled to expire in the next twelve months. During the 2008 Period we executed new leases for 439,800 square feet of office space with an average rental rate increase of 11.6%.

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Medical Office Sector

	Period Ended September 30,			
	2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 22,180	$ 21,963	$ 217	1.0%
Non-core[1]	10,463	5,114	5,349	104.6%
Total real estate rental revenue	$ 32,643	$ 27,077	$ 5,566	20.6%
Real Estate Expenses				
Core	$ 6,729	$ 6,525	$ 204	3.1%
Non-core[1]	3,837	1,800	2,037	113.2%
Total real estate expenses	$ 10,566	$ 8,325	$ 2,241	26.9%
Net Operating Income				
Core	$ 15,451	$ 15,438	$ 13	0.1%
Non-core[1]	6,626	3,314	3,312	99.9%
Total NOI	$ 22,077	$ 18,752	$ 3,325	17.7%

	Period Ended September 30,	
Economic Occupancy	**2008**	**2007**
Core	98.1%	99.1%
Non-core [1]	94.5%	95.1%
Total	96.9%	98.4%

(1) Non-core properties include:

2008 acquisition Sterling Medical Office Building

2007 acquisitions 2440 M Street, Woodholme Medical Office Building, Ashburn Farm Office Park and CentreMed I&II

The medical office sector recognized NOI of $22.1 million in the 2008 Period, which was $3.3 million higher than the 2007 Period due to the properties acquired in 2007 and 2008. The acquired properties contributed nearly all of the increase in NOI.

Core economic occupancy decreased to 98.1% from 99.1% due to vacancies at 8301 Arlington Boulevard and Alexandria Professional Center. Non-core economic occupancy decreased to 94.5% from 95.1%, reflecting vacant space at Sterling Medical Office Building, which was acquired during the second quarter of 2008. The sellers of Sterling Medical Office Building are reimbursing us for this vacant space for a period of 12 18 months under the terms of the sale agreement. As of September 30, 2008, 9.7% of the total medical office square footage leased is scheduled to expire in the next twelve months. During the 2008 Period, we executed new leases for 121,700 square feet of medical office space with an average rental rate increase of 19.6%.

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Retail Sector

	Period Ended September 30,			
	2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Core/Total	$ 31,247	$ 30,814	$ 433	1.4%
Real Estate Expenses				
Core/Total	$ 6,872	$ 6,643	$ 229	3.4%
Net Operating Income				
Core	$ 24,375	$ 24,171	$ 204	0.8%

	Period Ended September 30,	
Economic Occupancy	**2008**	**2007**
Core	94.9%	94.9%

Retail sector NOI remained relatively flat in the 2008 Period compared to the 2007 Period. The increase in rental revenue of $0.4 million was due to increased rental rates. Real estate expenses increased by $0.2 million due to higher real estate taxes caused by higher property assessments.

Economic occupancy remained unchanged. As of September 30, 2008, 12.7% of the total retail square footage leased is scheduled to expire in the next twelve months. During the 2008 Period, we executed new leases for 154,200 square feet of retail space at an average rent increase of 29.3%.

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Multifamily Sector

	Period Ended September 30, 2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 24,029	$ 23,179	$ 850	3.7%
Non-core [(1)]	2,614	70	2,544	
Total real estate rental revenue	$ 26,643	$ 23,249	$ 3,394	14.6%
Real Estate Expenses				
Core	$ 9,911	$ 9,579	$ 332	3.5%
Non-core [(1)]	2,464	332	2,132	642.2%
Total real estate expenses	$ 12,375	$ 9,911	$ 2,464	24.9%
Net Operating Income				
Core	$ 14,118	$ 13,600	$ 518	3.8%
Non-core [(1)]	150	(262)	412	157.3%
Total NOI	$ 14,268	$ 13,338	$ 930	7.0%

Economic Occupancy	Period Ended September 30, 2008	2007
Core	93.6%	91.3%
Non-core [(1)]	36.5%	27.0%
Total	81.3%	90.7%

(1) Non-core properties include:

2008 and 2007 in development Bennett Park and Clayborne Apartments

2008 acquisition Kenmore Apartments

The multifamily sector recognized NOI of $14.3 million in the 2008 Period, which was $0.9 million higher than in the 2007 Period. Core NOI increased by $0.5 million due to higher rental rates and higher occupancy, partially offset by higher operating expenses. Non-core NOI increased by $0.4 million due to the ongoing lease-up of two development properties, Bennett Park and Clayborne, placed into service in fourth quarter 2007 and first quarter 2008, respectively. The properties were 71% and 55% leased, respectively, as of the end of the 2008 Period.

Total economic occupancy decreased to 81.3% from 90.7% because the newly-developed Bennett Park and Clayborne were placed into service in fourth quarter 2007 and first quarter 2008, respectively, and are in the initial lease-up phase.

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Industrial Sector

	Period Ended September 30, 2008	2007	$ Change	% Change
Real Estate Rental Revenue				
Core	$ 28,105	$ 27,538	$ 567	2.1%
Non-core [1]	2,795	1,725	1,070	62.0%
Total real estate rental revenue	$ 30,900	$ 29,263	$ 1,637	5.6%
Real Estate Expenses				
Core	$ 7,111	$ 6,736	$ 375	5.6%
Non-core [1]	753	394	359	91.1%
Total real estate expenses	$ 7,864	$ 7,130	$ 734	10.3%
Net Operating Income				
Core	$ 20,994	$ 20,802	$ 192	0.9%
Non-core [1]	2,042	1,331	711	53.4%
Total NOI	$ 23,036	$ 22,133	$ 903	4.1%

Economic Occupancy	Period Ended September 30, 2008	2007
Core	93.8%	95.0%
Non-core [1]	90.5%	97.7%
Total	93.6%	95.2%

[1] Non-core properties include:

2008 acquisition	6100 Columbia Park Road
2007 acquisition	270 Technology Park

The industrial sector recognized NOI of $23.0 million in the 2008 Period, which was $0.9 million greater than in the 2007 Period due to the acquisitions of 270 Technology Park in February 2007 and 6100 Columbia Park Road in February 2008.

Core property NOI increased by $0.2 million in the 2008 Period from the 2007 Period due to higher rental rates offset by lower occupancy and higher bad debt expense.

Core economic occupancy decreased to 93.8% from 95.0% due to vacancies at Tech 100 and Ammendale I & II. Non-core economic occupancy decreased to 90.5% from 97.7% due to vacancies at 270 Technology Park. As of September 30, 2008, 16.0% of the total industrial square footage leased is scheduled to expire in the next twelve months. During the 2008 Period, we executed new leases for 485,200 square feet of industrial space at an average rent increase of 17.2%.

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LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash from our real estate operations and our unsecured credit facilities. As of September 30, 2008, we had approximately $7.8 million in cash and cash equivalents and up to $274.6 million available for borrowing under our unsecured credit facilities.

In January 2008, WRIT exercised a portion of the accordion feature on one of its unsecured revolving credit facilities. WRIT s total borrowing capacity was increased to $337 million at a rate of LIBOR plus 0.425% based on our current credit rating. In February 2008, WRIT completed an extinguishment of debt on $60 million of 10-year Mandatory Par Put Remarketed Securities (MOPPRS). The securities were refinanced with a $100 million 2-year term loan in February 2008. WRIT also entered into an interest rate swap on a notional amount of $100 million, which had the effect of fixing the interest rate on the term loan at 4.45%. Also, $18.0 million under our unsecured credit facilities was repaid using the proceeds of the $100 million term loan.

In September 2008 we borrowed $58.0 million on our unsecured credit facilities to fund the acquisition of Kenmore Apartments.

In May 2008 we completed a public offering of 2,600,000 common shares priced at $34.80 per share, raising $86.7 million in net proceeds. The proceeds were used to pay down borrowings under our lines of credit.

Also in May 2008, we executed three mortgage notes totaling approximately $81.0 million at a fixed rate of 5.71%, secured by three multifamily properties. The proceeds were used to repay borrowings under our lines of credit.

In August 2008 we entered into a Sales Agency Financing Agreement with BNY Mellon Capital Markets, LLC relating to the issuance and sale of up to $150 million of the Company s common shares from time to time over a period of no more than 36 months. Sales of the shares are made at market prices prevailing at the time of sale. Net proceeds from the sale of shares under this program will be used for repayment of borrowings under our lines of credit, acquisitions, and general corporate purposes. As of September 30, 2008, WRIT had issued an aggregate of 1,141,410 common shares at a weighted average share price of $36.15 for $40.7 million in net proceeds pursuant to this arrangement.

After the end of the 2008 Quarter, we completed a $60.4 million equity offering of 1.725 million common shares at a price of $35.00 per share. The proceeds were used to repay all outstanding borrowings under our lines of credit and for general corporate purposes.

We derive substantially all of our revenue from tenants under leases at our properties. Our operating cash flow therefore depends materially on our ability to lease our properties to tenants, the rents that we are able to charge to our tenants, and the ability of these tenants to make their rental payments.

Our primary uses of cash are to fund distributions to shareholders, to fund capital investments in our existing portfolio of operating assets, to fund new acquisitions, redevelopment and ground-up development activities and to fund operating and administrative expenses. As a REIT, we are required to distribute at least 90% of our taxable income to our shareholders on an annual basis. We also regularly require capital to invest in our existing portfolio of operating assets in connection with large-scale renovations, routine capital improvements, deferred maintenance on properties we have recently acquired, and our leasing activities, including funding tenant improvement allowances and leasing commissions. The amounts of the leasing-related expenditures can vary significantly depending on negotiations with tenants and the current competitive leasing environment.

As we review the results of the first nine months and anticipate the business activity for the remainder of 2008, we expect to complete the year with significant capital requirements. For the twelve months ended December 31, 2008, total anticipated capital or finance-related cash requirements are as follows:

- Funding dividends on our common shares and minority interest distributions to third party unit holders;

- Approximately $40.0 million to invest in our existing portfolio of operating assets, including approximately $14.0 million to fund tenant-related capital requirements;

Approximately $15.4 million to invest in our development projects;

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Approximately $258 million to fund our expected property acquisitions, less $40.2 million of net proceeds held escrowed in a tax free property exchange account and less a $102 million mortgage that is expected to be assumed; and

In the first quarter of 2008, $8.7 million was used to fund a non-recurring charge, resulting from an extinguishment of debt on $60 million on 10-year Mandatory Par Put Remarketed Securities (MOPPRS).

We expect to meet our capital requirements using cash generated by our real estate operations and through borrowings on our unsecured credit facilities, additional debt or equity capital raised in the public markets, possible asset dispositions or funding through property-specific mortgage debt.

We believe that we will generate sufficient cash flow from operations and have access to the capital resources necessary to fund our requirements. However, as a result of general, greater Washington metro regional, or tenant economic downturns, unfavorable changes in the supply of competing properties, changes in the capital markets or our properties not performing as expected, we may not generate sufficient cash flow from operations or otherwise have access to capital on favorable terms, or at all. If we are unable to obtain capital from other sources, we may not be able to pay the dividend required to maintain our status as a REIT, make required principal and interest payments, make strategic acquisitions, or make necessary routine capital improvements or undertake redevelopment opportunities with respect to our existing portfolio of operating assets. In addition, if a property is mortgaged to secure payment of indebtedness and we are unable to meet mortgage payments, the holder of the mortgage could foreclose on the property, resulting in loss of income and asset value.

If principal amounts due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new debt or equity capital, our cash flow may be insufficient to repay all maturing debt. Prevailing interest rates or other factors at the time of a refinancing (such as possible reluctance of lenders to make commercial real estate loans) may result in higher interest rates and increased interest expense.

Capital Structure

We manage our capital structure to reflect a long-term investment approach, generally seeking to match the cash flow of our assets with a mix of equity and various debt instruments. We expect that our capital structure will allow us to obtain additional capital from diverse sources that could include additional equity offerings of common shares, public and private debt financings and possible asset dispositions. Our ability to raise funds through the sale of debt and equity securities is dependent on, among other things, general economic conditions, conditions in the capital markets, general market conditions for REITs, our operating performance, our debt rating and the current trading price of our shares. We will always analyze which source of capital is most advantageous to us at any particular point in time; however, the capital markets may not consistently be available on terms that are attractive.

Debt Financing

We generally have used unsecured, corporate-level debt, including unsecured notes and our unsecured credit facilities, and fixed rate mortgages to meet our borrowing needs. Our total debt at September 30, 2008 is summarized as follows (in thousands):

Fixed rate mortgages	$ 330,569
Unsecured credit facilities	47,000
Unsecured notes payable	920,000
Total debt	$ 1,297,569

The $330.6 million in fixed rate mortgages, which includes $2.1 million in unamortized premiums due to fair value adjustments associated with assumption of certain mortgages in connection with acquisitions, bore an effective weighted average interest rate of 5.8% at September 30, 2008 and had a weighted average maturity of 5.1 years.

Our primary external source of liquidity is our two revolving credit facilities. At September 30, 2008 we had potential availability to borrow an additional $274.6 million under these lines, which bear interest at our option of an adjustable spread over LIBOR based on our public debt rating or the higher of the lender s prime rate and the Federal Funds Rate in effect plus

0.5%. Credit Facility No. 1 is a four-year, $75.0 million unsecured credit facility expiring in June 2011, with an option for a one-year extension. Credit Facility No. 2 is a four-year $262.0 million unsecured credit facility that expires in November 2010, with an option for a one-year extension.

In February, we completed an extinguishment of debt on $60 million of 10-year Mandatory Par Put Remarketed Securities (MOPPRS), resulting in an $8.4 million non-recurring charge, net of unamortized loan premium costs. We entered into a $100 million unsecured term loan (the Term Loan) to refinance the extinguished debt. The 2010 Term Loan has a maturity date of February 19, 2010, and bears interest at our option of LIBOR plus 1.50% or Wells Fargo s prime rate. To hedge our exposure to interest rate fluctuations on the 2010 Term Loan, we entered into an interest rate swap agreement on a notional amount of $100.0 million, which had the effect of fixing the LIBOR portion of the interest rate on the term loan at 2.95% through February 2010. As a result of the interest rate swap agreement, the 2010 Term Loan bears interest at an effective fixed rate of 4.45% (2.95% plus 1.50% margin). The interest rate swap agreement will settle contemporaneously with the maturity of the 2010 Term Loan.

Depending upon market conditions, opportunities to issue unsecured notes on attractive terms may not be available. Accordingly, we anticipate that in the near term we may rely to a greater extent upon our unsecured credit facilities and/or maintain balances on these facilities for longer periods than has been our historical practice. To the extent that we maintain larger balances on these facilities and/or maintain balances on these facilities for longer periods, adverse fluctuations in interest rates could have a material adverse effect on earnings. Our unsecured fixed-rate notes payable have maturities ranging from February 2010 through February 2028 (see Note 6), as follows (in thousands):

	Note Principal
4.45% notes due 2010	$ 100,000
5.95% notes due 2011	150,000
5.05% notes due 2012	50,000
5.125% notes due 2013	60,000
5.25% notes due 2014	100,000
5.35% notes due 2015	150,000
3.875% notes due 2026(1)	260,000
7.25% notes due 2028	50,000
	$ 920,000

(1) On or after September 20, 2011, we may redeem the convertible notes at a redemption price equal to the principal amount of the notes plus any accrued and unpaid interest, if any, up to, but excluding, the purchase date. In addition, on September 15, 2011, September 15, 2016 and September 15, 2021 or following the occurrence of certain change in control transactions prior to September 15, 2011, holders of these notes may require us to repurchase the notes for an amount equal to the principal amount of the notes plus any accrued and unpaid interest thereon.

Our unsecured revolving credit facilities and the unsecured notes payable contain certain financial and non-financial covenants, discussed in greater detail in our 2007 10-K, all of which were met as of September 30, 2008.

Our unsecured notes include certain non-financial covenants, and our unsecured, non-convertible notes also include certain financial covenants, with which we must comply. The financial covenants include limits on our total debt, limits on our secured debt, limits on our required debt service payments and maintenance of a minimum level of unencumbered assets. As of September 30, 2008 we were in compliance with all of our unsecured note covenants.

Dividends

We pay dividends quarterly. The maintenance of these dividends is subject to various factors, including the discretion of the Board of Trustees, the ability to pay dividends under Maryland law, the availability of cash to make the necessary dividend payments and the effect of REIT distribution requirements, which require at least 90% of our taxable income to be distributed to shareholders. Dividend and distribution payments were as follows for the 2008 and 2007 Quarters (in thousands):

	Quarter Ended September 30, 2008	Quarter Ended September 30, 2007	Period Ended September 30, 2008	Period Ended September 30, 2007
Common dividends	$ 21,576	$ 19,809	$ 62,753	$ 58,211
Minority interest distributions	48	35	143	103
	$ 21,624	$ 19,844	$ 62,896	$ 58,314

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Dividends paid for the 2008 Quarter increased as a result of a quarterly dividend rate increase from $0.4225 per share to $0.4325 per share in June 2008, the addition of 2.6 million shares from the equity offering in May 2008, and the addition of 1.1 million shares issued in September 2008 under the Sales Agency Financing Agreement.

Acquisitions and Development

As of September 30, 2008, we had acquired three properties:

Acquisition Date	Property Name	Property Type	Rentable Square Feet	Purchase Price (in thousands)
February 22, 2008	6100 Columbia Park Road	Industrial/Flex	150,000	$ 11,200
May 21, 2008	Sterling Medical Office Building	Medical office	36,000	6,500
September 3, 2008	Kenmore Apartments	Multifamily	269,000	58,300
		Total 2008 Period	455,000	$ 76,000

As of September 30, 2007 we had acquired seven properties and land for development:

Acquisition Date	Property Name	Property Type	Rentable Square Feet	Purchase Price (in thousands)
February 8, 2007	270 Technology Park	Industrial/Flex	157,000	$ 26,500
March 1, 2007	Monument II	Office	205,000	78,200
March 9, 2007	2440 M Street	Medical office	110,000	50,000
June 1, 2007	Woodholme Medical Office Building	Medical office	125,000	30,800
June 1, 2007	Woodholme Center	Office	73,000	18,200
June 1, 2007	Ashburn Farm Office Park	Medical office	75,000	23,000
August 16, 2007	CentreMed I & II	Medical office	52,000	15,300
August 30, 2007	4661 Kenmore Ave	Development	n/a	3,750
		Total 2007 Period	797,000	$ 245,750

The acquisitions in 2008 were funded with cash from operations and borrowings on our line of credit.

The purchase of 270 Technology Park in February 2007 was funded from proceeds of our convertible debt offering in January 2007. The purchase of Monument II in March 2007 was funded with proceeds from the January convertible debt offering and borrowings of $30 million on our line of credit. The purchase of the 2440 M Street property was funded by borrowings on our line of credit. The three acquisitions in June 2007 were funded with borrowings on our lines of credit.

As of September 30, 2008, we had funded $70.0 million, in development and land costs, on Phases I and II of the major development project at Dulles Station. The building for Phase I was placed into service during the third quarter of 2008.

Historical Cash Flows

Consolidated cash flow information is summarized as follows (in millions):

Nine Months Ended September 30,

	2008	2007	Change
Cash provided by (used in) operating activities	$ 71.1	$ 87.3	$ (16.2)
Cash provided by (used in) investing activities	$ (118.2)	$ (288.8)	$ 170.6
Cash provided by (used in) financing activities	$ 33.4	$ 202.7	$ (169.3)

Operations generated $71.1 million of net cash in the 2008 Period compared to $87.3 million of net cash generated during the comparable period in 2007. The decrease in cash flow is driven by higher interest payments and a lump distribution to the prior CEO of the present value of his deferred compensation.

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Our investing activities used net cash of $118.2 million in the 2008 Period compared to $288.8 million in the 2007 Period. The change is due to the fact that there were three acquisitions in the 2008 Period for $76.0 million, as compared to eight acquisitions for $245.8 million in the 2007 Period.

Our financing activities generated net cash of $33.4 million in the 2008 Period compared to $202.7 million provided in the 2007 Period. This difference was due primarily to the fact that the 2008 Period borrowings and proceeds from equity issuance were used to pay down the lines of credit and to pay off the $60 million MOPPRS debt and the related $8.4 million loss on extinguishment. The 2007 Period borrowings and proceeds from equity issuance were primarily used for the acquisition of new properties.

RATIOS OF EARNINGS TO FIXED CHARGES AND DEBT SERVICE COVERAGE

The following table sets forth the Trust s ratios of earnings to fixed charges and debt service coverage for the periods shown:

	Quarter Ended September 30,		Period Ended September 30,	
	2008	2007	2008	2007
Earnings to fixed charges	1.3x	1.3x	1.1x	1.4x
Debt service coverage	2.5x	2.6x	2.3x	2.6x

We computed the ratio of earnings to fixed charges by dividing earnings by fixed charges. For this purpose, earnings consist of income from continuing operations plus fixed charges, less capitalized interest. Fixed charges consist of interest expense, including amortized costs of debt issuance, plus interest costs capitalized.

We computed the debt service coverage ratio by dividing earnings before interest income and expense, depreciation, amortization and gain on sale of real estate by interest expense and principal amortization.

Both the earnings to fixed charges ratio and the debt service coverage ratio for the Period ended September 30, 2008 include the impact of the loss on extinguishment of debt of $8.4 million during first the quarter of 2008 (see *Consolidated Results of Operations* in Item 2).

FUNDS FROM OPERATIONS

FFO is a widely used measure of operating performance for real estate companies. We provide FFO as a supplemental measure to net income calculated in accordance with GAAP. Although FFO is a widely used measure of operating performance for equity real estate investment trusts, FFO does not represent net income calculated in accordance with GAAP. As such, it should not be considered an alternative to net income as an indication of our operating performance. In addition, FFO does not represent cash generated from operating activities in accordance with GAAP, nor does it represent cash available to pay distributions and should not be considered as an alternative to cash flow from operating activities, determined in accordance with GAAP, as a measure of our liquidity. The National Association of Real Estate Investment Trusts, Inc. (NAREIT) defines FFO (April 2002 White Paper) as net income (computed in accordance with GAAP) excluding gains (or losses) from sales of property plus real estate depreciation and amortization. We consider FFO to be a standard supplemental measure for REITs because it facilitates an understanding of the operating performance of our properties without giving effect to real estate depreciation and amortization, which historically assumes that the value of real estate assets diminishes predictably over time. Since real estate values have instead historically risen or fallen with market conditions, we believe that FFO more accurately provides investors an indication of our ability to incur and service debt, make capital expenditures and fund other needs. Our FFO may not be comparable to FFO reported by other REITs. These other REITs may not define the term in accordance with the current NAREIT definition or may interpret the current NAREIT definition differently.

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The following table provides the calculation of our FFO and a reconciliation of FFO to net income (in thousands):

	Quarter Ended September 30,		Period Ended September 30,	
	2008	2007	2008	2007
Net income	$ 5,879	$ 34,390	$ 25,599	$ 53,439
Adjustments:				
Gain from non-disposal activities	(17)		(17)	(1,303)
Gain on sale of real estate		(25,022)	(15,275)	(25,022)
Depreciation and amortization	21,422	17,852	62,799	50,310
Discontinued operations depreciation & amortization	123	433	469	1,630
FFO as defined by NAREIT	$ 27,407	$ 27,653	$ 73,575	$ 79,054

ITEM 3: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal material financial market risk to which we are exposed is interest-rate risk. Our exposure to market risk for changes in interest rates relates primarily to refinancing long-term fixed rate obligations, the opportunity cost of fixed rate obligations in a falling interest rate environment and our variable rate lines of credit. We primarily enter into debt obligations to support general corporate purposes including acquisition of real estate properties, capital improvements and working capital needs.

In February 2008, we entered into an interest rate swap that qualifies as a cash flow hedge under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. We enter into interest rate swaps to manage our exposure to variable rate interest risk. We do not purchase derivatives for speculation. Our cash flow hedges are recorded at fair value. The effective portion of changes in fair value of cash flow hedges is recorded in other comprehensive income. The ineffective portion of changes in fair value of cash flow hedges is recorded in earnings in the period affected. We assess effectiveness of our cash flow hedges both at inception and on an ongoing basis.

As the majority of our outstanding debt is long-term, fixed rate debt, our interest rate risk has not changed significantly from what was disclosed in our 2007 Form 10-K. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Debt Financing.

ITEM 4: CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer, Chief Financial Officer and Executive Vice President of Accounting, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer, Chief Financial Officer and Executive Vice President of Accounting, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by the report. Based on the foregoing, our Chief Executive Officer, Chief Financial Officer and Executive Vice President of Accounting concluded that the Trust s disclosure controls and procedures were effective at the reasonable assurance level.

There have been no changes in the Company s internal control over financial reporting (as defined by Rule 13a-15(f)) that occurred during the period covered by the report that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting, other than as described above.

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PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 1A. RISK FACTORS

The risk factors in the Company s annual report on Form 10-K are supplemented by the addition of the following risk factor:

Recent disruptions in the financial markets could affect our ability to obtain financing or have other adverse effects on us or the market price of our common shares.

The United States and global equity and credit markets have recently experienced significant price volatility and liquidity disruptions which have caused the market prices of stocks to fluctuate substantially and the spreads on prospective debt financings to widen considerably. These circumstances have significantly negatively impacted liquidity in the financial markets, making terms for certain financings less attractive or unavailable. Continued uncertainty in the equity and credit markets may negatively impact our ability to access additional financing at reasonable terms or at all. In the case of a debt financing, our cost of borrowing in the future could be significantly higher than historical levels. In the case of a common equity financing, the disruptions in the financial markets may have a material adverse effect on the market value of our common shares, potentially requiring us to issue more shares than we would otherwise have issued with a higher market value for our common shares. These financial market circumstances could negatively affect our ability to make acquisitions, undertake new development projects, complete existing development projects or refinance our debt. These circumstances may also make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of financing or difficulties in obtaining financing.

The current market conditions may also adversely affect our tenants and their businesses, including their ability to pay rents when due and renew their leases at rates at least as favorable as their current rates. As well, our ability to attract prospective new tenants in the future could be adversely affected. There is a risk that government responses to the disruptions in the financial markets will not restore consumer confidence, stabilize the markets or increase liquidity and the availability of equity or credit financing.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS

(a) Exhibits

10. Material Contracts

(kk) Transition Agreement and General Release dated August 5, 2008 with Sara L. Grootwassink.

12. Computation of Ratios

31. Sarbanes-Oxley Act of 2002 Section 302 Certifications

(a) Certification Chief Executive Officer

(b) Certification Executive Vice President

(c) Certification Chief Financial Officer

32. Sarbanes-Oxley Act of 2002 section 906 Certification

(a) Written Statement of Chief Executive Officer, Executive Vice President and Chief Financial Officer

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has fully caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WASHINGTON REAL ESTATE INVESTMENT TRUST

/s/ George F. McKenzie
George F. McKenzie
President and Chief Executive Officer

/s/ Laura M. Franklin
Laura M. Franklin
Executive Vice President

Accounting, Administration and Corporate Secretary

/s/ Sara L. Grootwassink
Sara L. Grootwassink
Executive Vice President and Chief Financial Officer

DATE: November 10, 2008

366.7

Distributions to Parent related to recapitalization

(215.0)

Other distributions to Parent, net

(0.8)

Balance as of December 31, 2010	317.8
Net Income	1.5
Distribution to Parent	(7.8)

Balance as of December 31, 2011

311.5 $311.5

Divisional Control Transfer

311.5 (311.5)

Net Loss

(20.3) (20.3)

Issuance of common stock (100 shares at $ .01 par value)

Issuance of partnership units

123.6

Contributions from Parent related to settlement of intercompany balances

7.1 196.4 203.5

Other contributions from Parent, net

5.4 5.4

Balance as of December 31, 2012						
	$	123.6	$	$7.1	$493.0	$	$500.1

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

CyrusOne Inc.

NOTES TO COMBINED FINANCIAL STATEMENTS

1. Description of Business and Basis of Presentation

CyrusOne Inc, together with CyrusOne GP, CyrusOne LP and its subsidiaries (collectively, CyrusOne , we , our or Predecessor) is an owner, operator and developer of enterprise-class, carrier neutral data centers. Our customers operate in a number of industries, including energy, oil and gas, mining, medical, technology, finance and consumer goods and services. We currently operate 24 data centers located in the United States, United Kingdom and Singapore. A large portion of our revenues are generated by data centers located in Texas and Ohio. An economic downturn or natural disaster occurring in these operating territories could have a disproportionate effect on our business, financial condition, results of operations and cash flows compared to similar companies operating in different geographic areas.

CyrusOne Inc., CyrusOne GP, of which CyrusOne is the sole beneficial owner and sole trustee, and its limited partnership, CyrusOne LP, of which CyrusOne GP is the general partner, were formed on July 31, 2012. CyrusOne completed an initial public offering of its common stock on January 24, 2013 (the offering). Prior to our initial public offering, CyrusOne and CyrusOne LP engaged in certain formation transactions designed to (i) continue the operations of the Predecessor, (ii) enable CyrusOne to raise necessary capital to repay certain debt to Cincinnati Bell Inc. (CBI or Parent), a related party, (iii) fund operating costs, capital expenditures and working capital, (iv) provide a funding vehicle for potential business acquisitions, and (v) enable CyrusOne to comply with the requirements under the federal income tax laws and regulations related to real estate investment trusts (REIT).

CyrusOne s operations will be primarily conducted through CyrusOne LP, its limited partnership. CyrusOne intends to elect the status of and qualify as a REIT under Sections 856 and 860 of the Internal Revenue Code of 1986 (the Code), as amended, for the taxable year ended December 31, 2013. CyrusOne will be the sole beneficial owner and sole trustee of CyrusOne GP, which will be the sole general partner in CyrusOne LP.

On November 20, 2012, CyrusOne LP received a contribution of interests in real estate properties from CBI in exchange for limited partnership interests in CyrusOne LP and the assumption of debt and other specified liabilities. In return, CyrusOne LP issued 123,688,687 operating partnership units to CBI. A portion of CyrusOne s related party notes receivable/payable and deferred tax assets and liabilities were not contributed to CyrusOne LP. Subsequent to December 31, 2012, CyrusOne LP executed a 2.8 to 1.0 reverse unit split, resulting in CBI owning 44,102,556 operating partnership units.

Prior to November 20, 2012, CyrusOne was not a legal entity or a combination of legal entities. The accompanying combined financial statements of CyrusOne represent the data center assets and operations owned by CBI and, unless the context otherwise requires, its consolidated subsidiaries which historically have been maintained in various legal entities, some of which had significant unrelated business activities. CBI has operated its Cincinnati-based data center business for over 10 years; in addition, it acquired GramTel Inc. (GramTel), a data center operator in South Bend, Indiana and Chicago, Illinois, for approximately $20 million in December 2007; and it acquired Cyrus Networks, LLC (Cyrus Networks), a data center operator based in Texas, for approximately $526 million, net of cash acquired, in June 2010. The accompanying financial statements have been carved out of CBI s consolidated financial statements and reflect significant assumptions and allocations. The combined financial statements do not fully reflect what the Predecessor s financial position, results of operations and cash flows would have been had the Predecessor been a stand-alone company during the periods presented. As a result, historical financial information is not necessarily indicative of CyrusOne s future results of operations, financial position and cash flows.

On January 24, 2013, CyrusOne completed the initial public offering of its common stock, issuing approximately 19.0 million shares for $337.1 million, net of underwriter s discount. On the same date, CyrusOne Inc. purchased approximately 19.0 million of CyrusOne LP s operations partnership units. In addition, CBI

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exchanged approximately 1.5 million partnership units for CyrusOne common stock, and CBI was issued 0.4 million CyrusOne shares in repayment for transaction costs paid by CBI. CyrusOne also issued approximately 1.0 million of its common shares to directors and employees. Vesting of these shares is contingent upon completion of service. Following the completion of these transactions, CyrusOne Inc. and CyrusOne GP held a combined 33.9% interest in CyrusOne LP, with the remaining 66.1% interest held by CBI.

The accompanying financial statements were prepared using CBI s historical basis in the assets and liabilities of its data center business. The combined financial statements include all revenues, costs, assets and liabilities directly attributable to the data center business. In addition, certain expenses reflected in the combined financial statements include allocations of corporate expenses from CBI, which in the opinion of management are reasonable (see further discussion in Note 14). Related party notes payable in the accompanying combined financial statements reflect contractual amounts due to CBI or other affiliated entities. All intercompany transactions have been eliminated from the accompanying combined financial statements.

2. Significant Accounting Policies

Use of Estimates Preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the combined financial statements and accompanying notes. These estimates and assumptions are based on management s knowledge of current events and actions that we may undertake in the future. Estimates are used in determining the fair value of leased real estate, the useful lives of real estate and other long-lived assets, future cash flows associated with goodwill and other long-lived asset impairment testing, deferred tax assets and liabilities and loss contingencies. Estimates were also utilized in the determination of historical allocations of shared employees payroll, benefits and incentives and management fees. Actual results may differ from these estimates and assumptions.

Investments in Real Estate Investments in real estate consist of land, buildings, improvements and integral equipment utilized in our data center operations. Real estate acquired from third parties has been recorded at its acquisition cost. Real estate acquired from CBI and its affiliates has been recorded at its historical cost basis. Additions and improvements which extend an asset s useful life or increase its functionality are capitalized and depreciated over the asset s remaining life. Maintenance and repairs are expensed as incurred.

When we are involved in the construction of structural improvements to the leased property, we are deemed the accounting owner of leased real estate. In these instances, we bear substantially all the construction period risk, such as managing or funding construction. These transactions generally do not qualify for sale-leaseback accounting due to our continued involvement in these data center operations. At inception, the fair value of the real estate, which generally consists of a building shell, and our associated obligation is recorded as construction in progress. As construction progresses, the value of the asset and obligation increases by the fair value of the structural improvements. When construction is complete, the asset is placed in service and depreciation commences. Leased real estate is depreciated to the lesser of (i) its estimated fair value at the end of the term or (ii) the expected amount of the unamortized obligation at the end of the term. As of December 31, 2012 and 2011, leased assets, where we are deemed the accounting owner, were $60.8 million and $48.2 million, respectively. The associated obligation is presented as other financing arrangements in the accompanying combined balance sheets.

When we are not deemed the accounting owner, we further evaluate leased real estate to determine whether the lease should be classified as a capital or operating lease. One of the following four characteristics must be present to classify a lease as a capital lease: (i) the lease transfers ownership of the property to the lessee by the end of the lease term, (ii) the lease contains a bargain purchase option, (iii) the lease term is equal to 75% or more of the estimated economic life of the leased property or (iv) the net present value of the lease payments are at least 90% of the fair value of the leased property. As of December 31, 2012 and 2011, capital lease assets included in investment in real estate were $61.4 million and $59.2 million, respectively.

Construction in progress includes direct and indirect expenditures for the construction and expansion of our data centers and is stated at its acquisition cost. Independent contractors perform substantially all of the construction and expansion efforts of our data centers. Construction in progress includes costs incurred under construction contracts including project management services, engineering and schematic design services, design development, construction services and other construction-related fees and services. Interest, property taxes and certain labor costs are also capitalized during the construction of an asset. Capitalized interest in 2012, 2011, and 2010 was $2.7 million, $2.6 million, and $0.5 million, respectively. These costs are depreciated over the estimated useful life of the related assets.

Depreciation is calculated using the straight-line method over the estimated useful life of the asset. Useful lives range from 20 to 48 years for buildings, 3 to 25 years for building improvements, and 3 to 5 years for equipment. Leasehold improvements are amortized over the shorter of the asset s useful life or the remaining lease term, including renewal options which are reasonably assured.

Cash and Cash Equivalents Cash and cash equivalents consist of funds on deposit at financial institutions.

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

Goodwill Goodwill represents the excess of the purchase price over the fair value of net assets acquired in connection with business acquisitions. We perform impairment testing of goodwill, at the reporting unit level, on an annual basis or more frequently if indicators of potential impairment exist. The fair value of our reporting unit was determined using a combination of market-based valuation multiples for comparable businesses and discounted cash flow analysis based on internal financial forecasts incorporating market participant assumptions. The fair value of each reporting unit exceeded its corresponding carrying value; therefore, no impairments were recognized in 2012, 2011 or 2010.

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

Management reviews the carrying value of long -lived assets, including intangible assets with definite lives, when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Examples of such indicators may include a significant adverse change in the extent to which or manner in which the property is being used, an accumulation of costs significantly in excess of the amount originally expected for acquisition or development, or a history of operating or cash flow losses. When such indicators exist, we review an estimate of the undiscounted future cash flows expected to result from the use of an asset (or group of assets) and its eventual disposition and compare such amount to its carrying amount. We consider factors such as future operating income, leasing demand, competition and other factors. If our undiscounted net cash flows indicate that we are unable to recover the carrying value of the asset, an impairment loss is recognized. An impairment loss is measured as the amount by which the asset s carrying value exceeds its estimated fair value.

Receivables Receivables consist principally of trade receivables from customers, are generally unsecured and are due within 30 to 90 days. Unbilled receivables arise from services rendered but not yet billed. Expected credit losses associated with trade receivables are recorded as an allowance for uncollectible accounts. The allowance for uncollectible accounts is estimated based upon historic patterns of credit losses for aged receivables as well as specific provisions for certain identifiable, potentially uncollectible balances. When internal collection efforts on accounts have been exhausted, the accounts are written off and the associated allowance for uncollectible accounts is reduced. The Company has receivables with two large customers that exceed 10% of the Company s outstanding accounts receivable balance at December 31, 2012. There were no customers that exceeded 10% of the Company s outstanding accounts receivables balance at December 31, 2011.

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

As of December 31, 2012 receivables were $33.5 million and the allowance for uncollectible accounts was $0.3 million. The December 31, 2011 receivables and related allowance for uncollectible accounts were immaterial for 2011.

Deferred Leasing Costs Sales commissions incurred at the commencement of a new lease are capitalized and amortized over the term of the customer lease. Amortization of deferred leasing costs is presented with depreciation and amortization in the accompanying combined statements of operations. If a lease terminates prior to the expected life of the customer relationship, the remaining unamortized cost is written off to amortization expense.

Deferred Financing Costs Legal and professional fees incurred in connection with issuance of debt and revolving credit facilities are capitalized and amortized over the term of the financing arrangement. Amortization of deferred financing costs is presented within interest expense in the accompanying combined statements of operations.

Pushdown of CBI Acquisition-Related Debt In June 2010, CBI borrowed $526 million on its corporate credit facility to finance the acquisition of Cyrus Networks. In accordance with Staff Accounting Bulletin Topic 5J (SAB Topic 5J), we presented $168 million of CBI acquisition-related debt in our combined financial statements. We considered various allocation methodologies in determining the amount of debt to be recognized in the combined financial statements. The method selected was based on a leverage ratio common to the industry. As of December 31, 2010, the pushdown of CBI acquisition debt was derecognized from the Predecessor s financial statements concurrent with a divisional control distribution from the Predecessor and issuance of a $400 million note payable to CBI. The reversal of debt recognition was offset by an increase to divisional control.

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

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

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

Revenue is recognized for services or products that are deemed separate units of accounting. When a customer makes an advance payment which is not deemed a separate unit of accounting, deferred revenue is recorded. This revenue is recognized ratably over the expected term of the customer relationship, unless the pattern of service suggests otherwise. As of December 31, 2012 and 2011, deferred revenue was $52.8 million and $49.0 million, respectively.

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

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

Sales and Marketing Expense Sales and marketing expense is comprised of compensation and benefits associated with sales and marketing personnel as well as advertising and marketing costs. Prior to January 1, 2011, certain commissions were paid as a percentage of monthly recurring revenue, and these amounts were included in sales and marketing expense. These commission plans were terminated on December 31, 2010. Costs related to advertising are expensed as incurred and amounted to $2.9 million, $1.4 million and $0.2 million in 2012, 2011 and 2010, respectively.

Depreciation and Amortization Expense Depreciation expense is recognized over the estimated useful lives of real estate applying the straight-line method. The useful life of leased real estate and leasehold improvements is the lesser of the economic useful life of the asset or the term of the lease, including optional renewal periods if renewal of the lease is reasonably assured. The residual value of leased real estate is estimated as the lesser of (i) the expected fair value of the asset at the end of the lease term or (ii) the expected amount of the unamortized liability at the end of the lease term. Estimated useful lives are periodically reviewed. Depreciation expense was $54.5 million, $39.1 million and $26.9 million in 2012, 2011 and 2010, respectively.

Amortization expense is recognized over the estimated useful lives of finite-lived intangibles. An accelerated method of amortization is utilized to amortize our customer relationship intangible, consistent with the benefit expected to be derived from this asset. We amortize trademarks, favorable leasehold interests, deferred leasing costs and deferred sales commissions, over their estimated useful lives. The estimated useful life of trademarks and customer relationships is eight to 15 years. The favorable leasehold interest is being amortized over the remaining lease term of 56 years. Deferred leasing costs are amortized over three to five years. Amortization expense was $18.9 million, $16.4 million and $9.3 million in 2012, 2011 and 2010, respectively.

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

Restructuring Costs A restructuring charge was recognized in 2010 to terminate an existing sales commission plan in order to transition to a common plan for all commissioned employees.

Operating and Transactional Taxes Certain operating taxes, such as property, sales, use and value added taxes, are reported as expenses in operating income. These taxes are not included in income tax expense because the amounts to be paid are not dependent on the level of income generated. We also record operating

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expenses for the establishment of liabilities related to certain operating tax audit exposures. These liabilities are established based on our assessment of the probability of payment. Upon resolution of an audit, any remaining liability not paid is released and increases operating income.

Income Taxes The Predecessor was included in CBI s consolidated tax returns in various jurisdictions. In the accompanying combined financial statements, we have accounted for income taxes as if the Predecessor was a separate stand-alone company. The income tax provision consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods.

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

Foreign Currency Translation and Transactions The financial position of foreign subsidiaries is translated at the exchange rates in effect at the end of the period, while revenues and expenses are translated at average rates of exchange during the period. Gains or losses from translation of foreign operations where the local currency is the functional currency are included as components of accumulated other comprehensive (loss) income. Gains and losses arising from foreign currency transactions are recorded in the period incurred. Gains and losses from translation and foreign currency transactions were immaterial in 2012, 2011 and 2010.

Comprehensive Income (Loss) Comprehensive income (loss) represents the change in net assets of a company from transactions and other events from non-owner sources. Comprehensive income (loss) equaled our net income (loss) in 2012, 2011 and 2010.

Earnings per Share For the historical periods presented, the Predecessor operated without a defined capital structure or designated equity. As a result, earnings per share has not been presented.

Business Combinations In accounting for business combinations, we apply the accounting requirements of ASC 805, Business Combinations, which requires the recording of net assets of acquired businesses at fair value. In developing estimates of fair value of acquired assets and assumed liabilities, management analyzed a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates, current replacement cost for fixed assets and market rate assumptions for contractual obligations. Such a valuation requires management to make significant estimates and assumptions, particularly with respect to the intangible assets. Acquisition costs are expensed as incurred.

Related Party Transactions CBI provided us with a variety of services. Cost allocation methods which were employed to determine the costs to be recognized in the accompanying combined financial statements included the following:

- Specific identification Applied when amounts were specifically identifiable to our operations.

- Reasonable allocation method When amounts were not clearly or specifically identifiable to our operations, management applied a reasonable allocation method.

Insurance Programs CBI provided the Predecessor with coverage for certain employee health care benefits as well as losses incurred related to general liability, workers compensation and automobile claims. CBI has purchased third-party insurance policies for these risks and is self-insured up to certain limits. Our portion of CBI s self-insured insurance expense has been determined based on its historical experience of paid claims.

Pension and Postretirement Some of our employees participated in CBI s pension and postretirement benefit plans. These plans have been accounted for as multi-employer plans which require us to recognize expense for our proportionate share of the annual contributions to these plans. Our proportionate share of these contributions was determined using the projected benefit obligation associated with our plan participants compared to CBI s plan participants and was immaterial in 2012, 2011 and 2010.

Stock-Based Compensation Some of our employees participated in CBI s stock-based compensation plans. CBI values all share-based payments to employees at fair value on the date of grant and expenses this amount over the applicable vesting period. The fair value of stock options and stock appreciation rights is determined using the Black-Scholes option-pricing model using assumptions such as volatility, risk-free interest rate, holding period and expected dividends. The fair value of stock awards is based upon the closing market price of CBI s common stock on the date of grant. For all share-based awards, a forfeiture rate is estimated based upon the historical forfeiture patterns. The forfeiture rate reduces the total fair value of the awards to be recognized as compensation expense. For graded vesting awards, CBI s policy is to recognize compensation expense on a straight-line basis over the vesting period. Certain employees have been granted awards, which are indexed to the change in CBI s common stock price, which will be cash settled. These awards are marked to fair market value and the adjusted compensation cost is expensed on a pro-rata basis over the remaining vesting period. The accompanying combined financial statements include an allocation of stock-based compensation costs for awards granted to our employees.

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

Level 1 Observable inputs for identical instruments such as quoted market prices;

Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs); and

Level 3 Unobservable inputs that reflect our determination of assumptions that market participants would use in pricing the asset or liability. These inputs are developed based on the best information available, including our own data.

Business Segments Business segments are components of an enterprise for which separate financial information is available and regularly viewed by the chief operating decision maker to assess performance and allocate resources. Our chief operating decision maker reviews our financial information on an aggregate basis. Furthermore, our data centers have similar economic characteristics and customers across all geographic locations, our service offerings have similar production processes, deliver services in a similar manner and use the same types of facilities and similar technologies. As a result, we have concluded that we have one reportable business segment.

3. Recently Issued Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). The accounting update amends the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements in order to achieve further convergence with IFRS. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. We adopted the provisions of this standard effective January 1, 2012. The adoption of this standard did not have a material impact on our combined financial statements.

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4. Acquisitions

On June 11, 2010, CBI purchased 100% of the equity interests of Cyrus Networks, LLC, a data center business based in Texas, for approximately $526 million, net of cash acquired. This acquisition expanded our data center operations beyond the midwestern United States. This transaction has been accounted for as a business combination applying the acquisition method. The results of this acquired business have been included in our combined statement of operations subsequent to its acquisition date. Our results of operations for the twelve months ended December 31, 2010 included revenues of $44.9 million and operating income of $0.6 million associated with this acquired entity. Acquisition costs of $9.0 million and management fees of $1.8 million were associated with the acquisition and allocated to the Predecessor in 2010.

The following table summarizes the fair value of the assets acquired and liabilities assumed:

(dollars in millions)	
Assets acquired	
Investment in real estate:	
Buildings and improvements	$ 136.8
Equipment	4.6
Construction in progress	10.4
Investment in real estate	151.8
Goodwill	269.5
Intangible assets	138.0
Other assets	12.8
Total assets acquired	572.1
Liabilities assumed	
Accounts payable and accrued expenses	5.2
Deferred revenue	7.7
Other financing arrangements	32.1
Other liabilities	0.8
Total liabilities assumed	45.8
Net assets acquired	$ 526.3

As required under ASC 805, we valued the assets acquired and liabilities assumed at fair value. The fair value of investment in real estate, intangible assets and other financing arrangements were estimated by management with the assistance of an independent valuation firm. All other fair value measurements were determined solely by management. Goodwill decreased by $0.1 million upon finalization of the purchase price allocation in early 2011.

The following table presents the allocation of the purchase price to intangible assets acquired:

	Fair Value (dollars in millions)	Weighted - Average Amortization Period (in Years)
Intangible assets subject to amortization:		
Customer relationships	$ 126.7	15
Trademark	7.4	15

Favorable leasehold interest		3.9	56
Total intangible assets subject to amortization	$	138.0	16

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Customer relationships have been amortized on an accelerated method relative to the estimated economic value generated by these assets in future years. The trademark and favorable leasehold interest are both amortized on a straight-line basis, which approximates the estimated economic value generated by this asset in future years.

The following unaudited pro forma results of operations assumes this acquisition was completed as of January 1, 2009:

	Year Ended December 31,	
(dollars in millions)	**2010**	**2009**
Revenue	$ 159.1	$ 130.8
Income (loss) from continuing operations	8.8	(1.5)

These pro forma results include adjustments related to the purchase price allocation and financing of the acquisition as well as the results of Cyrus Networks prior to the acquisition. The pro forma adjustments and their effect on the income (loss) from continuing operations were as follows:

	Year Ended December 31,	
(dollars in millions)	**2010**	**2009**
Elimination of deferred installation revenue	$ (1.7)	$ (1.6)
Elimination of deferred sales commissions	0.8	0.8
Increase in depreciation and amortization on acquired property and intangibles	(6.5)	(12.9)
Reclass acquisition costs to earliest year presented	9.0	(9.0)
Higher interest costs associated with acquisition-related debt	(1.4)	(4.4)
Tax effects of above entries	(2.6)	5.1
Total	$ (2.4)	$ (22.0)

The pro forma information shown above does not necessarily reflect the actual results of operations had the acquisition been consummated at the beginning of the annual reporting period indicated nor is it necessarily indicative of future operating results. The pro forma information does not include any (i) potential revenue enhancements, cost synergies or other operating efficiencies that could result from the acquisition or (ii) transaction or integration costs relating to the acquisition.

5. Investment in Real Estate

For the year ended December 31, 2012, an impairment of $17.1 million related to our gross investment in real estate was incurred. Disposals associated with buildings and improvements were $0.6 million.

Acquisition of Real Estate

In January 2012, we purchased a 30-acre parcel of land and a 659,340 square foot building in Carrollton, Texas (Dallas metro area) for $23.4 million. Land was allocated $16.1 million of the purchase price and the remaining $7.3 million was associated with developing this building into an operating data center.

In July 2012, the Predecessor purchased six acres of land adjacent to the Westway Park (Houston West) facility for $2.0 million. Concurrent with this purchase, we committed to fund construction of a 157,000 square foot building at a cost of $11.1 million. We deposited these funds into an escrow account to fund construction and $4.8 million was drawn to fund construction costs as of December 31, 2012. This account is presented as restricted cash in the accompanying condensed combined balance sheet. Upon completion of the shell, this building will be further developed into a data center.

In September 2011, the Predecessor purchased 56 acres of land to build a data center near Phoenix, Arizona. The purchase price of this property was $14.8 million. This facility was commissioned in 2012, providing approximately 36,000 square feet of colocation space.

In December 2011, the Predecessor purchased a 10-acre parcel of land and building in San Antonio, Texas. The purchase price of this property was $7.6 million. The purchase price was allocated $4.6 million to land with the remaining $3.0 million allocated to the building. This facility was commissioned in 2012, providing approximately 36,000 square feet of colocation space.

6. Goodwill, Intangible and Other Long-Lived Assets

Goodwill and intangible assets were recognized in connection with the acquisition of Cyrus Networks as well as prior acquisitions. The carrying amount of goodwill was $276.2 million for both 2012 and 2011.

Summarized below are the carrying values for the major classes of intangible assets:

(dollars in millions)		December 31, 2012		2011	
	Weighted-Average Life (in years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	15	$ 129.5	$ (36.8)	$ 136.6	$ (26.4)
Trademark	15	7.4	(1.2)	7.4	(0.7)
Favorable leasehold interest	56	3.9	(0.2)	3.9	(0.1)
Total		$ 140.8	$ (38.2)	$ 147.9	$ (27.2)

During the second quarter of 2012, management identified impairment indicators for a customer relationship intangible and other long-lived assets primarily related to GramTel acquisition. We performed step one of the impairment tests for these assets utilizing cash flow estimates from our most recent long-term business plan and other updated assumptions. The results of these tests indicated a potential impairment loss for each of these asset groups.

Management engaged a third-party valuation specialist to assist with our estimation of the fair value of these assets. Management estimated the fair value of the customer relationship using the income approach, which discounted the expected earnings attributable to current customer contracts, and includes estimates of future expenses, capital expenditures and an appropriate discount rate.

Management also estimated the fair value of other long-lived assets, primarily leasehold improvements, using an income approach based on projected discounted future cash flows using estimates of future revenues and expenses, projected capital expenditures and an appropriate discount rate. The fair value of the customer relationship intangible was estimated by management to be $2.8 million resulting in an asset impairment of $1.5 million. Management estimated the fair value of other long-lived assets, primarily leasehold improvements, at $2.4 million resulting in an impairment loss of $11.8 million. Both fair value estimates are deemed Level 3 measurements within the fair value hierarchy due to the significance of unobservable inputs utilized in these measurements.

Amortization expense for intangible assets subject to amortization was $16.4 million, $15.5 million and $9.2 million in 2012, 2011 and 2010, respectively. The following table presents estimated amortization expense for 2013 through 2017:

(dollars in millions)	
2013	$ 16.9
2014	16.9
2015	14.6
2016	11.5
2017	9.4

7. Sale of Accounts Receivable

Prior to October 1, 2012, we sold most of our receivables to an affiliated entity at a discount of 2.5% of the face value. Proceeds from the sale of these assets were settled through CBI s centralized cash management system. Effective October 1, 2012, we terminated our participation in this program and previously derecognized receivables of $25.9 million were transferred back to us.

As of December 31, 2011, derecognized and delinquent receivables associated with this arrangement were $20.7 million and $3.3 million, respectively. Credit losses on sold receivables were immaterial.

	For the years ended December 31,		
(dollars in millions)	2012	2011	2010
Receivables sold, net	$ 127.8	$ 137.5	$ 70.2
Proceeds upon sale	124.6	134.0	68.4
Loss on sale	3.2	3.5	1.8
Servicing fees received	0.1	0.1	0.1

8. Debt and Other Financing Arrangements

Debt and other financing arrangements presented in the accompanying combined financial statements consist of the following:

	As of December 31,	
(dollars in millions)	2012	2011
Revolving credit agreement	$	$
Capital lease obligations	32.2	42.9
Related party note due on demand		80.2
Related party note due 2018		400.0
6 $^{3}/_{8}$% Senior Notes due 2022	525.0	
Other financing arrangements	60.8	48.2
Total	$ 618.0	$ 571.3

Revolving credit agreement On November 20, 2012, we entered into a credit agreement (the Credit Agreement) which provides for a $225 million senior secured revolving credit facility, with a sublimit of $50 million for letters of credit and a $30 million sublimit for swingline loans. The Credit Agreement has a maturity date of November 20, 2017. Borrowings under the Credit Agreement will be used for working capital, capital expenditures and other general corporate purposes of CyrusOne LLC, the operating subsidiary of CyrusOne LP, the borrower and the other subsidiaries of CyrusOne, including for acquisitions, dividends and other distributions permitted thereunder. Letters of credit will be used for general corporate purposes.

Borrowings under the Credit Agreement bear interest, at our election, at a rate per annum equal to LIBOR or a base rate plus an applicable margin equal to, in the case of LIBOR borrowings, 3.50% per annum and, in the case of base rate borrowings, 2.50% per annum, subject to periodic adjustment for changes in the total net leverage ratio.

Borrowings under the Credit Agreement are guaranteed by CyrusOne Inc., CyrusOne GP, CyrusOne Finance Corp., CyrusOne LLC, CyrusOne TRS Inc., and CyrusOne Foreign Holdings LLC. The obligations under the Credit Agreement are secured by, subject to certain exceptions, the capital stock of certain of our subsidiaries, certain intercompany debt and the tangible and other intangible assets of us and certain of our subsidiaries.

The Credit Agreement contains customary affirmative and negative covenants (which are in some cases subject to certain exceptions), including, but not limited to, restrictions on the ability to incur additional indebtedness, create liens, make certain investments, make certain dividends and related distributions, prepay certain debt, engage in affiliate transactions, enter into, or undertake, certain liquidations, mergers, consolidations or acquisitions, amend the organizational documents and dispose of assets or subsidiaries. In addition, the Credit Agreement requires us to maintain a certain secured net leverage ratio, ratio of earnings before interest taxes depreciation and amortization (EBITDA) to fixed charges and ratio of total indebtedness to gross asset value, in each case on a consolidated basis. Notwithstanding the limitations set forth above, we will be permitted, subject to the terms and conditions of the Credit Agreement, to distribute to our shareholders cash dividends in an amount not to exceed 95% of our adjusted funds from operations for any period.

The Credit Agreement contains customary events of default (which are in some cases subject to certain exceptions, thresholds, notice requirements and grace periods), including, but not limited to, nonpayment of principal or interest, failure to perform or observe covenants, breaches of representations and warranties, cross-defaults with certain other indebtedness, certain bankruptcy-related events or proceedings, final monetary judgments or orders, ERISA defaults, certain change of control events and loss of REIT status following a REIT election by us.

As of December 31, 2012, there were no borrowings on the Credit Agreement.

We pay commitment fees for the unused amount of borrowings on the Credit Agreement and letter of credit fees on any outstanding letters of credit. The commitment fees are equal to 0.50% of the actual daily amount by which the aggregate revolving commitments exceed the sum of outstanding revolving loans and letter of credit obligations. Commitment fees related to the Credit Agreement were immaterial in 2012.

Capital lease obligations We use leasing as a source of financing for certain of our data center facilities and related equipment. We currently operate six data center facilities recognized as capital leases. We have options to extend the initial lease term on all these leases and options to purchase the facility for one of these leases. Interest expense on capital lease obligations was $7.4 million, $5.4 million and $4.3 million in 2012, 2011 and 2010, respectively.

Related party note due on demand Prior to November 20, 2012, we participated in CBI s centralized cash management program. On a daily basis, all excess cash was transferred to CBI s corporate cash accounts. Likewise, substantially all funds to finance our operations and capital expenditures were funded by CBI. Advances and borrowings between affiliates were governed by an intercompany cash management note. Borrowings were unsecured. On November 20, 2012, we repaid $80 million on this note and the remaining amount outstanding was not contributed to CyrusOne LP.

Effective November 19, 2010, all advances/borrowings bear interest at the average 30-day Eurodollar rate for the calendar month plus the applicable credit spread for Eurodollar rate borrowings charged for CBI s revolving line of credit. Prior to this date, the interest rate applied to such advances and borrowings was CBI s short-term borrowing rate. The average rate earned or charged was 5.0% in 2012, 5.0% in 2011 and 4.2% in 2010.

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Related party note due 2018 On December 31, 2010, the Predecessor funded a distribution to CBI by issuing a note payable to CBI for $400 million (see further discussion of the distribution in Note 10). This note bore interest at 7.25% and matured in 2018. Interest was settled on a monthly basis through CBI s centralized cash management system. On November 20, 2012, this note was repaid in full.

6 3/8% Senior Notes due 2022 On November 20, 2012, CyrusOne LP and CyrusOne Finance Corp. (the Issuers) issued $525 million of 6 3/8% Senior Notes due 2022 (6 3/8% Senior Notes). The 6 3/8% Senior Notes are senior unsecured obligations of the Issuers, which rank equally in right of payment with all existing and future unsecured senior debt of the Issuers. The 6 3/8% Senior Notes are effectively subordinated to all existing and future secured indebtedness of the Issuers to the extent of the value of the assets securing such indebtedness. The 6 3/8% Senior Notes are guaranteed on a joint and several basis by CyrusOne Inc., CyrusOne GP, and each of CyrusOne LP s existing and future domestic wholly-owned subsidiaries, subject to certain exceptions. Each such guarantee is a senior unsecured obligation of the applicable guarantor, ranking equally with all existing and future unsecured senior debt of such guarantor and effectively subordinated to all existing and future secured indebtedness of such guarantor to the extent of the value of the assets securing that indebtedness. The 6 3/8% Senior Notes are structurally subordinated to all liabilities (including trade payables) of each subsidiary of the Issuer that does not guarantee the Senior Notes. The 6 3/8% Senior Notes bear interest at a rate of 6 3/8% per annum, payable semi-annually on May 15 and November 15 of each year, beginning on May 15, 2013, to persons who are registered holders of the 6 3/8% Senior Notes on the immediately preceding May 1 and November 1, respectively.

The indenture governing the 6 3/8% Senior Notes limits the ability of the CyrusOne LP and its restricted subsidiaries to incur indebtedness, encumber their assets, enter into sale and leaseback transactions, make restricted payments, create dividend restrictions and other payment restrictions that affect the CyrusOne LP s restricted subsidiaries, permit restricted subsidiaries to guarantee certain indebtedness, enter into transactions with affiliates, sell assets and engage in certain business activities, in each case subject to certain qualifications set forth in the indenture.

The 6 3/8% Senior Notes will mature on November 15, 2022. However, prior to November 15, 2017, the Issuers may, at their option, redeem some or all of the 6 3/8% Senior Notes at a redemption price equal to 100% of the principal amount of the 6 3/8% Senior Notes, together with accrued and unpaid interest, if any, plus a make-whole premium. On or after November 15, 2017, the Issuers may, at our option, redeem some or all of the 6 3/8% Senior Notes at any time at declining redemption prices equal to (i) 103.188% beginning on November 15, 2017, (ii) 102.125% beginning on November 15, 2018, (iii) 101.063% beginning on November 15, 2019 and (iv) 100.000% beginning on November 15, 2020 and thereafter, plus, in each case, accrued and unpaid interest, if any, to the applicable redemption date. In addition, before November 15, 2015, and subject to certain conditions, the Issuers may, at their option, redeem up to 35% of the aggregate principal amount of the 6 3/8% Senior Notes with the net proceeds of certain equity offerings at 106.375% of the principal amount thereof, plus accrued and unpaid interest, if any, to the date of redemption; provided that (i) at least 65% of the aggregate principal amount of the 6 3/8% Senior Notes remains outstanding and (ii) the redemption occurs within 90 days of the closing of any such equity offering.

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

In 2011, we terminated the financing obligation for one of these facilities by purchasing the property from the former lessor. The Predecessor recognized a loss on extinguishment of debt of $1.4 million upon the termination of this arrangement.

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The following table summarizes our annual minimum payments associated with our other financing arrangements for the five years subsequent to December 31, 2012 and thereafter:

(dollars in millions)	
2013	$ 6.0
2014	6.4
2015	6.6
2016	6.7
2017	6.9
Thereafter	42.3
Total financing arrangements	$ 74.9

The following table summarizes annual principal maturities of our of 6 $^{3}/_{8}$% Senior Notes due 2022 and capital leases for the five years subsequent to December 31, 2012, and thereafter:

(dollars in millions)	Capital leases	Long term debt	Total Debt
2013	$ 6.3	$	$ 6.3
2014	4.0		4.0
2015	3.5		3.5
2016	3.8		3.8
2017	2.6		2.6
Thereafter	12.0	525.0	537.0
Total debt	$ 32.2	$ 525.0	$ 557.2

Deferred financing costs Deferred financing costs are costs incurred in connection with obtaining long-term financing. In 2012, deferred financing costs were incurred in connection with the issuance of the 6 $^{3}/_{8}$% Senior Notes due 2022. As of December 31, 2012, deferred financing costs totaled $16.9 million. There were no deferred financing costs as of December 31, 2011. Deferred financing costs are amortized over the term of the related indebtedness or credit agreement. Amortization of deferred financing costs, included in interest expense in the Combined Statements of Operations, totaled $0.3 million in 2012 with no such costs in 2011 and 2010.

Debt covenants

The indenture governing the 6 $^{3}/_{8}$% Senior Notes contains affirmative and negative covenants customarily found in indebtedness of this type, including a number of covenants that, among other things, restrict, subject to certain exceptions, the Company s ability to: incur secured or unsecured indebtedness; pay dividends or distributions on its equity interests, or redeem or repurchase equity interests of the Company; make certain investments or other restricted payments; enter into transactions with affiliates; enter into agreements limiting the ability of the operating partnership s subsidiaries to pay dividends or make certain transfers and other payments to the operating partnership or to other subsidiaries; sell assets; and merge, consolidate or transfer all or substantially all of the operating partnership s assets. Notwithstanding the foregoing, the covenants contained in the indenture do not restrict the Company s ability to pay dividends or distributions to stockholders to the extent (i) no default or event of default exists or is continuing under the indenture and (ii) the Company believes in good faith that we qualify as a REIT under the Internal Revenue Code and the payment of such dividend or distribution is necessary either to maintain its status as a REIT or to enable it to avoid payment of any tax that could be avoided by reason of such dividend or distribution. The Company and its subsidiaries are also required to maintain total unencumbered assets of at least 150% of their unsecured debt on a consolidated basis, provided that for the purposes of such calculation their revolving credit facility shall be treated as unsecured indebtedness.

The Credit Agreement requires us to maintain a certain secured net leverage ratio, ratio of EBITDA to fixed charges and ratio of total indebtedness to gross asset value, in each case on a consolidated basis. Notwithstanding

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these limitations, we will be permitted, subject to the terms and conditions of the Credit Agreement, to distribute to our shareholders cash dividends in an amount not to exceed 95% of our adjusted funds from operations for any period. Similarly, our indenture permits dividends and distributions necessary for us to maintain our status as a real estate investment trust.

The Company s most restrictive covenants are generally included in its Credit Agreement. In order to continue to have access to the amounts available to it under the Credit Agreement, the Company must remain in compliance with all covenants.

9. Fair Value of Financial Instruments

The fair value of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses approximate their carrying value because of the short-term nature of these instruments. The carrying value and fair value of other financial instruments are as follows:

	December 31, 2012		December 31, 2011	
(dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Related party note due on demand	$	$	$ 80.2	$ 80.2
Related party note due 2018			400.0	415.1
6 $^{3}/_{8}$% Senior Notes due 2022	525.0	547.3		
Other financing arrangements	60.8	69.5	48.2	47.5

The fair value of our 6 $^{3}/_{8}$% Senior Notes was estimated based on the market price of these notes at December 31, 2012 which is considered level two of the fair value hierarchy. The fair value of other financing arrangements at December 31, 2012 was estimated by applying our credit spread to the risk-free rate for a similar duration borrowing. As of December 31, 2011, we did not have any outstanding borrowings, so the current borrowing rate was estimated by applying our Parent s credit spread to the risk-free rate for a similar duration borrowing.

The fair value of other financing arrangements was calculated using a discounted cash flow model that incorporates current borrowing rates for obligations of similar duration. These fair value measurements are considered Level 3 of the fair value hierarchy. The fair value of the related party note due on demand was equal to its carrying value as it bore interest at a current market rate.

Non-recurring Fair Value Measurements

Certain long-lived assets, intangibles and goodwill are required to be measured at fair value on a non-recurring basis subsequent to their initial measurement. These non-recurring fair value measurements generally occur when evidence of impairment has occurred.

As of December 31, 2012, the following assets were measured at fair value:

(dollars in millions)	December 31, 2012	Quoted prices in active markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
Customer relationships	$ 2.8	$	$	$ 2.8	$ (1.5)
Buildings and improvements	2.4			2.4	(11.8)
Impairment losses					$ (13.3)

In the second quarter of 2012, the customer relationship intangible obtained in our former GramTel acquisition was deemed impaired. The fair value of this asset was estimated at $2.8 million, resulting in an impairment loss of $1.5 million. The fair value of this asset was estimated by management with the assistance of a third-party valuation specialist. Management estimated the fair value using the income approach, which discounted the expected future earnings attributable to current customer contracts, and includes estimates of future expenses, capital expenditures and a discount rate of 12%. This fair value measurement is considered a Level 3 measurement due to the significance of its unobservable inputs.

In addition, leasehold improvements and other property at GramTel data centers were deemed impaired. Prior to recognizing the impairment, these assets had a net book value of $14.2 million as of June 30, 2012. The fair value of the assets was written down to the estimated fair value of $2.4 million, resulting in an impairment loss of $11.8 million. The fair value of these assets was estimated by management with the assistance of a third-party valuation specialist. Management estimated the fair value using an income approach. Projected discounted cash flows included estimates regarding future revenues and expenses, projected capital expenditures and a discount rate of 12%. This fair value measurement is considered a Level 3 measurement due to the significance of its unobservable inputs.

10. Parent s Net Investment

On August 6, 2012, CyrusOne issued 100 shares of its common stock to CBI for $1,000 in connection with its initial capitalization. During 2012, transaction costs of $7.1 million associated with our initial public offering were paid by CBI and reflected as contribution from Parent in our financial statements.

At December 31, 2012, partnership capital represented CBI s net investment in CyrusOne LP. On November 20, 2012, CyrusOne LP received a contribution of interests in the real estate properties from CBI. In exchange, CyrusOne LP issued 123,688,687 operating partnership units to CBI. CBI also assumed certain of the Predecessor s intercompany payables and other liabilities of $203.5 million. Subsequent to December 31, 2012, CyrusOne LP executed a 2.8 to 1.0 reverse unit split, resulting in CBI owning 44,102,556 operating partnership units.

Prior to November 20, 2012, the Predecessor was not a separate legal entity and was operated by CBI during the periods presented. At December 31, 2011, divisional control represented CBI s net investment in the Predecessor. In 2011, the Predecessor distributed $7.8 million to CBI.

On December 31, 2010, CBI restructured its data center legal entities, including intercompany borrowings. In conjunction with this restructuring, Parent acquisition-related debt of $160.2 million (net of unamortized discount and debt issue costs) and related party notes payable to CBI of $24.8 million were subsumed into a new $400 million note payable to CBI and a distribution was issued to CBI in the amount of $215.0 million.

In 2010, the Predecessor received a $366.7 million contribution from CBI to fund the acquisition of Cyrus Networks and assumed $159.6 million of parent acquisition-related debt, net of associated discount and issuance costs. Other distributions to Parent, net were $0.8 million in 2010, inclusive of CBI s contribution of the Goldcoast Drive (Goldcoast) data center at historical carrying value.

11. Customer Leases

Customer lease arrangements customarily contain provisions that either allow for renewal or continuation on a month-to-month arrangement. Certain leases contain early termination rights. At lease inception, early termination is generally not deemed reasonably assured due to the significant economic penalty incurred by the lessee to exercise its termination right and to relocate its equipment. The future minimum lease payments to be received under non-cancelable operating leases, excluding month-to-month arrangements and submetered power, for the next five years are shown below:

(dollars in millions)	
2013	$ 135.2
2014	106.5
2015	70.7
2016	49.6
2017	34.1

12. Pension and Other Employee Benefit Plans

Historically, some of our shared employees and retirees participated in CBI s pension and other benefit plans. CBI managed these plans on a combined basis for all its affiliates and funded all plan contributions. Our employees were also eligible to participate in one of two sponsored defined contribution plans. One of these plans is sponsored by CyrusOne and the other by CBI. Employee contributions to these plans are matched by the sponsoring employer. Our direct and allocated contributions to these plans were $0.4 million, $0.4 million, and $0.3 million in 2012, 2011 and 2010, respectively.

Some of our shared employees also participate in CBI sponsored health care plans which provide medical, dental, vision and prescription benefits. This plan is also managed by CBI on a combined basis for all its affiliates. We are unable to estimate our share of CBI s liability for claims incurred but not reported or reported but not paid. Our allocated cost of these plans was $0.1 million, $0.8 million and $0.9 million in 2012, 2011, and 2010, respectively.

13. Stock-Based Compensation Plans

Some of our employees were granted stock options, stock appreciation rights, and awards indexed to CBI s common stock under CBI sponsored long-term incentive plans. These awards may have been time -based or performance-based. Generally these stock options awards vested three years from the grant date and expired ten years from the date of grant. Performance based stock option and other awards generally vested over three to four years and upon the achievement of certain performance-based objectives. Performance-based awards were expensed based on their grant date fair value, if it was probable that the performance conditions were achieved. For cash-settled awards which are indexed to CBI s common stock price, compensation expense was recognized for changes in the market price of CBI s common stock. Subsequent to December 31, 2012, all unvested share-based awards issued by CBI to CyrusOne employees were forfeited.

Allocated stock-based compensation expense (benefit) was $3.4 million, $0.6 million and $(0.2) million in 2012, 2011 and 2010, respectively. The allocated cost was determined based upon specific identification of awards to specific data center employees as well as shared employees. For shared employees, the allocated cost was based upon the individual s estimated percentage of time spent on data center activities. In 2010, a performance-based award was forfeited resulting in the reversal of previously recognized compensation costs. The tax (benefit) expense associated with stock-based compensation was $(0.9) million, $(0.2) million and $0.1 million in 2012, 2011 and 2010, respectively.

14. Related Party Transactions

Prior to November 20, 2012, CyrusOne Inc., CyrusOne GP, CyrusOne LP and its subsidiaries were not separate legal entities and were operated by CBI during the periods presented. As discussed in Note 1, the combined financial statements have been prepared from the records maintained by CBI and may not necessarily be indicative of the conditions that would have existed or the results of operations that would have occurred if the business had been operated as an unaffiliated company. The combined financial statements reflect the following transactions with CBI and its affiliated entities.

Revenues CyrusOne leases space in its data centers to CBT and CBTS. Revenue recognized from these arrangements was $5.4 million, $4.4 million and $2.0 million in 2012, 2011 and 2010, respectively. In November 2012, we entered into separate data center colocation agreements with CBT and CBTS whereby we will continue to lease colocation space to each of them at certain of our data centers. The data center colocation agreement with CBT provides for CBT s lease of data center space, power and cooling in certain of our data centers for a period of five years at an aggregate rate of $3.8 million per year. Our data center colocation agreement with CBTS provides for CBTS s lease of data center space, power and cooling at certain data center facilities for a period of five years at an aggregate rate of $1.6 million per year. Both agreements are renewable for an additional five-year term at market rates.

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

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

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

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

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

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

In conjunction with the purchase of the property located at 229 West Seventh Street, we executed a reciprocal easement and shared services agreement. CBT continues to own the adjacent property that was historically operating together with 229 West Seventh Street as one property. Pursuant to this agreement, we granted reciprocal easements to each other; CBT has easements for continued use of portions of our building and CBT provides fuel storage, fire suppression and other building services to us; and we provide chilled water, building automation systems related to heating, ventilation and air conditioning (HVAC) and other building services to CBT. The shared services agreement is expected to continue for a period of fifteen years with five renewal options of five years each. Initially, we are responsible for operating and managing the service facilities for both buildings. Each party will bear its own utility costs, as well as property taxes and insurance. Shared building operating costs will be charged to each party on the basis of the actual costs incurred, allocated based on the proportionate share of usage. Each party will also pay the other party less than $0.2 million per year to maintain shared building infrastructure systems.

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

Benefits and Insurance Some of our employees participated in pension, postretirement, health care and stock-based compensation plans sponsored by CBI or an affiliate. Our allocated costs for employee benefits were determined by specific identification of the costs associated with our participating employees or based upon the percentage that our employees represent of total participants. Our allocated employee benefit plan costs were $3.5 million, $1.8 million and $1.1 million in 2012, 2011 and 2010, respectively.

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

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

General & Administrative We have entered into a transition services agreement with CBI pursuant to which CBI will continue to provide certain services, on an as needed basis, until the earlier of December 31, 2014 or one year from the completion of our initial public offering; provided, however that the agreement or the provision of a particular service to be provided thereunder may be terminated for convenience by us upon 30 days prior written notice. The fees for these services will be based on actual hours incurred for these services at negotiated hourly rates or a negotiated set monthly fee. Expense recognized in 2012 for this arrangement was not material, with no such costs in prior years.

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

Loss on Sale of Receivables Prior to October 1, 2012, we participated in an accounts receivable securitization program sponsored by CBI for certain of its subsidiaries. Under this program, we continuously sold certain trade accounts receivable to CBF at a 2.5% discount to the receivables face value. In turn, CBF granted, without recourse, a senior undivided interest in the pooled receivables to commercial paper conduits in exchange for cash. The loss on sale of our account receivables was $3.2 million, $3.5 million and $1.8 million in 2012, 2011 and 2010, respectively. See Note 7 for further details. Effective October 1, 2012, we terminated our participation in this accounts receivable securitization program.

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

Prior to November 20, 2012, we participated in CBI s centralized cash management program. On a periodic basis, all excess cash was transferred to CBI s corporate cash accounts. Likewise, substantially all funds to finance our operations, as well as capital expenditures, were funded by CBI. Advances and borrowings between affiliates were governed by an intercompany cash management agreement. Effective November 19, 2010, all advances/borrowings bore interest at the average 30-day Eurodollar rate for the calendar month plus the applicable credit spread for Eurodollar rate borrowings charged for CBI s revolving line of credit. Prior to this date, the interest rate applied to such advances and borrowings was CBI s short-term borrowing rate. The average rate earned or charged was 5.0% in 2012, 5.0% in 2011 and 4.2% in 2010. As of November 20, 2012, $80 million of these borrowings were repaid. As of December 31, 2011, borrowings of $80.2 million were presented within due to affiliates and related party notes payable in the accompanying combined financial statements. Net interest expense recognized on notes due to or from related parties was $7.0 million in 2012, and $1.1 million in 2011 and 2010.

Other Under the CBT services agreement, CBT provides us with connectivity services for a period of five years related to several of our data center facilities. These services are related to the use of fiber and circuit assets

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that are currently a part of the CBI network. The annual fee for these services will be $0.9 million, subject to reduction if we terminate certain services. Expense recognized from this arrangement was $0.7 million in 2012, with similar amounts in 2011 and 2010.

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

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

The reciprocal easement and shared services agreement described above also contains a make-whole provision that requires us to make a payment to CBT if CBT s carrier access revenue declines below $5.0 million per annum as a result of certain actions taken by us which result in circuit disconnections or reductions at CBT. The term of this make-whole provision is approximately four years.

15. Restructuring Charges

In 2010, the Predecessor terminated a sales commission plan in order to transition to a common plan across all its locations. Effective January 1, 2011, all sales commissions are calculated as a percentage of the initial customer billing and paid at lease commencement. Prior to this date, certain sales commissions were determined as a percentage of monthly billings over the term of the customer relationship. A restructuring charge of $1.4 million was recognized in 2010 to settle all remaining commission obligations associated with the terminated plan. This amount was paid in full in 2011. No restructuring charges were recognized in 2012 or 2011.

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16. Income Taxes

CyrusOne was historically included in CBI s consolidated tax return. In the accompanying financial statements we have accounted for income taxes on a separate company basis. Effective November 20, 2012 the operating assets of the business were contributed to CyrusOne LP, a partnership. The partnership will not be subject to federal income tax on net taxable income, as the income will flow through to the partners. Income tax at the partnership level will be limited to foreign income taxes and income tax assessed by a few state and local jurisdictions that assess tax directly to the partnership rather than the partners. Income tax benefit below reflects federal, foreign and various state and local net tax benefits generated prior to the formation of the partnership as well as foreign, state and local net tax benefit on taxable loss generated by the partnership.

	Year Ended December 31,		
(dollars in millions)	2012	2011	2010
Income tax expense (benefit):			
Continuing operations	$ (5.1)	$ 2.2	$ 2.7
Loss on sale of real estate improvements			(0.1)
Total	$ (5.1)	$ 2.2	$ 2.6

	Year Ended December 31,		
(dollars in millions)	2012	2011	2010
Current:			
Federal	$	$	$
Foreign			
State and local	0.9	0.6	0.3
Total current	0.9	0.6	0.3
Deferred:			
Federal	(5.7)	1.5	2.1
Foreign	(1.6)	(0.2)	
State and local	(0.3)		0.3
Total deferred	(7.6)	1.3	2.4
Valuation allowance	1.6	0.3	
Total	$ (5.1)	$ 2.2	$ 2.7

Prior to November 20, 2012, current tax expense was considered paid as incurred through CBI s centralized cash management program.

The following is a reconciliation of the statutory federal income tax rate with the Predecessor s effective tax rate for each year:

	Year Ended December 31,		
	2012	2011	2010
U.S. federal statutory rate	35.0%	35.0%	35.0%
Partnership income not taxed at federal statutory rate	(7.0)%	0.0%	0.0%
State and local income taxes, net of federal income tax	(1.4)%	11.6%	5.7%
Change in valuation allowance, net of federal income tax	(5.6)%	6.6%	0.3%
Nondeductible portion of meals and entertainment	(0.5)%	3.6%	1.5%
Effects of foreign income taxes	(0.2)%	2.2%	0.0%
Other differences, net	(0.2)%	0.4%	0.2%

Effective tax rate	20.1%	59.4%	42.7%

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On November 20, 2012, substantially all assets and liabilities associated with our data center operations were contributed by CBI to CyrusOne LP, except for certain tax assets, liabilities and related notes payables. Thus CyrusOne Inc. and CyrusOne LP will have no federal net operating losses available to offset future taxable income and only a small amount of local net operating losses generated in the current year. CyrusOne retained the historical net operating losses related to its foreign operations. As of December 31, 2012, CyrusOne had approximately $1.2 million of foreign net operating loss carryforwards. Due to the uncertainty related to the realization of these net operating losses, a valuation allowance has been established for the entire $1.2 million of loss carryforwards.

The components of our deferred tax assets and liabilities shown below at the end of 2011 and 2010 reflect deferred taxes at the end of each year and prior to the formation of the partnership. Deferred taxes at the end of 2012 reflect foreign, state and local deferred taxes remaining after contributions to the partnership.

	Year Ended December 31,		
(dollars in millions)	2012	2011	2010
Deferred tax assets:			
Net operating loss carryforwards	$ 1.3	$ 16.0	$ 7.7
Real estate and other property	1.1		
Unearned revenue	0.1	5.7	4.2
Other		0.3	0.9
Total deferred tax assets	2.5	22.0	12.8
Valuation allowance	(1.9)	(0.3)	(0.1)
Total deferred tax assets, net of valuation allowance	0.6	21.7	12.7
Deferred tax liabilities:			
Real estate and other property		17.5	8.2
Employee compensation	0.1	1.7	0.6
Other		0.6	0.5
Total deferred tax liabilities	0.1	19.8	9.3
Net deferred tax assets	$ 0.5	$ 1.9	$ 3.4

The ultimate realization of the deferred income tax assets depends upon our ability to generate future taxable income during the periods in which basis differences and other deductions become deductible and prior to the expiration of the net operating loss carryforwards. Based upon historical and future projected earnings, we believe we will fully utilize local net operating loss carryforwards prior to their expiration. Management has concluded that it is more likely than not that certain foreign tax loss carryforwards will not be realized prior to their expiration. As of December 31, 2012 and 2011, the valuation allowance associated with these net operating losses as well as other deferred tax assets was $1.9 and $0.3 million, respectively.

As of December 31, 2012 and 2011, there were no unrecognized tax benefits. We do not currently anticipate that the amount of unrecognized tax benefits will change significantly over the next year.

CyrusOne files separate tax returns in various state, local and foreign jurisdictions. CyrusOne was historically included in the consolidated filings of CBI and its subsidiaries for the federal jurisdiction and certain state and local jurisdictions. With a few exceptions, CBI and its subsidiaries are no longer subject to U.S. federal, state or local examinations for years prior to 2009.

We intend to elect and qualify as a REIT for U.S. federal income tax purposes commencing with our taxable year ending December 31, 2013. Our qualification as a REIT depends upon our ability to meet on a continuing basis, through actual investment and operating results, various complex requirements under the Code, relating to, among other things, the sources of our gross income, the composition and values of our assets, our distribution levels and the diversity of ownership of our shares.

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We have received a private letter ruling from the IRS, subject to the terms and conditions contained therein, with respect to certain issues relevant to 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 a REIT, we generally will not be subject to U.S. federal income tax on our net taxable income that we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year and do not qualify for certain statutory relief provisions, we would be subject to U.S. federal income tax at regular corporate rates and would be precluded from re-electing to be taxed as a REIT for the subsequent four taxable years following the year during which we lost our REIT qualification. Even if we qualify for taxation as a REIT, we may be subject to certain U.S. federal, state and local taxes on our income or property, and the income of our taxable REIT subsidiaries (each, a TRS) will be subject to taxation at regular corporate rates.

17. Commitments and Contingencies

Affiliate Guarantees of Lease Obligations

CBI has guaranteed our performance under certain leases. CBI had also issued a letter of credit to provide assurance that we will meet our lease commitments. This letter of credit expired in December 2012. Fees for maintaining this letter of credit were paid by CBI and allocated to us through management fees. These fees were $0.1 million in 2012, $0.4 million in 2011 and $0.7 million in 2010, respectively. Any future letters of credit will be drawn on our revolving line of credit.

Performance Guarantees

Customer contracts generally require specified levels of performance related to uninterrupted service and cooling temperatures. If these performance standards are not met, we could be obligated to issue billing credits to the customer. Management assesses the probability that a performance standard will not be achieved. As of December 31, 2012 and 2011, no amounts had been accrued for performance guarantees.

Operating Leases

We lease certain data center facilities and equipment from third parties. Operating lease expense was $5.9 million, $5.7 million and $1.5 million in 2012, 2011 and 2010, respectively. Certain of these leases provide for renewal options with fixed rent escalations beyond the initial lease term.

At December 31, 2012, future minimum lease payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows:

(dollars in millions)		
2013	$	3.7
2014		1.1
2015		0.9
2016		0.5
2017		
Thereafter		1.0
Total	$	7.2

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Indemnifications

During the normal course of business, CyrusOne has made certain indemnities, commitments and guarantees under which it may be required to make payments in relation to certain transactions. These include (i) intellectual property indemnities to customers in connection with the use, sale, and/or license of products and services, (ii) indemnities to vendors and service providers pertaining to claims based on negligence or willful misconduct and (iii) indemnities involving the representations and warranties in certain contracts. The majority of these indemnities, commitments and guarantees do not provide for any limitation on the maximum potential for future payments that we could be obligated to make.

Purchase Commitments

CyrusOne has non-cancelable purchase commitments related to certain services. These agreements range from one to two years and provide for payments for early termination or require minimum payments for the remaining term. As of December 31, 2012, the minimum commitments for these arrangements were $50 million. We also have purchase orders and contracts related to construction of data center facilities and equipment. We generally have the right to cancel open purchase orders prior to delivery and to terminate the contracts without cause.

Contingencies

CyrusOne is involved in legal, tax and regulatory proceedings arising from the conduct of its business activities. Liabilities are established for loss contingencies when losses associated with such claims are deemed to be probable, and the loss can be reasonably estimated. Based on information currently available and consultation with legal counsel, we believe that the outcome of all claims will not, individually or in the aggregate, have a material effect on the Predecessor s financial statements.

Contingent Compensation Plan

Some of our employees participate in a contingent long-term incentive program sponsored by CBI. Payment is contingent upon the completion of a qualifying transaction and attainment of an increase in the equity value of the data center business as defined in the plans. The maximum payout is limited to $60 million and would be funded by CBI. No compensation expense has been recognized in the accompanying combined financial statements for this plan as a qualifying transaction had not occurred through December 31, 2012.

On January 24, 2013, we completed our initial public offering, a qualifying transaction which will trigger payment under this contingent compensation plan. For the three months ending March 31, 2013, we expect to recognize compensation expense between $18 and $23 million, based on a preliminary estimate of the equity value created. This payment will be funded by CBI and we will recognize an increase in non-controlling interest as a result of this transaction.

18. Subsequent Events

On January 24, 2013, CyrusOne closed its initial public offering of 18,975,000 shares of common stock at a price of $19.00 per share, which included a 2,475,000 share over-allotment option that was exercised by the underwriters. Following the closing of the initial public offering, CBI retained a 69% economic interest in CyrusOne through its interests in the outstanding shares of our common stock and of the units of our operating partnership, CyrusOne LP. CyrusOne LP units are exchangeable into common stock of CyrusOne on a one-to-one basis, or cash at the fair value of a share of our common stock, at our option, commencing on January 17, 2014.

Effective January 24, 2013, CBI s ownership in CyrusOne will be accounted for as non-controlling interest.

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19. Quarterly Financial Information (Unaudited)

The table below reflects the unaudited selected quarterly information for the years ended December 31, 2012 and 2011:

	2012				
(dollars in millions)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
Revenue	$ 52.1	$ 54.0	$ 56.7	$ 58.0	220.8
Operating income (loss)	$ 10.2	$ (4.8)	$ 7.7	$ 3.2	16.3
Net loss	$ (0.7)	$ (9.9)	$ (2.8)	$ (6.9)	(20.3)

	2011				
	First Quarter	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
Revenue	$ 42.7	$ 44.5	$ 46.5	$ 48.0	181.7
Operating income	$ 8.3	$ 10.6	$ 9.1	$ 10.0	38.0
Net income (loss)	$ (0.1)	$ 1.4	$ 0.5	$ (0.3)	1.5

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

CyrusOne Inc. s management, including the Chief Executive Officer and the Chief Financial Officer, have evaluated the effectiveness of CyrusOne s disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based on that evaluation, CyrusOne s Chief Executive Officer and Chief Financial Officer have concluded that such controls and procedures were effective.

Management s annual report on internal control over financial reporting: IPO Company

This annual report does not include a report of management s assessment regarding internal control over financial reporting or an attestation report of the Company s registered public accounting firm due to a transition period established by rules of the Securities and Exchange Commission for newly public companies.

Attestation Report of Independent Registered Public Accounting Firm

Not applicable.

Changes in Internal Control over Financial Reporting

During 2012, we identified a significant deficiency, as defined in the Public Company Accounting Oversight Board Standard (United States) AU Section 325, related to our internal control over financial reporting. This significant deficiency related to IT controls over our change management process and logical access to our general ledger system. Following the identification of the significant deficiency, we took measures to remediate the significant deficiency. As of December 31, 2012, these measures have been fully implemented and we have concluded that these deficiencies have been fully remediated.

No other changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fourth fiscal quarter ended December 31, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

Not applicable.

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ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
Directors and Executive Officers

Our board of directors consists of eight members. Our board of directors has determined that a majority of our directors are independent within the meaning of the NASDAQ Global Select Market listing standards. Pursuant to our charter and bylaws, each of our directors will be elected annually by our stockholders to serve until the next annual meeting and until his or her successor is duly elected and qualifies. The first annual meeting of our stockholders will be held in 2014. Subject to any employment agreements, our officers serve at the pleasure of our board of directors.

The following table sets forth certain information concerning the individuals who are our directors and executive officers as of March 18, 2013.

Name	Age	Position
Gary J. Wojtaszek	47	President, Chief Executive Officer and Director
Kimberly H. Sheehy	48	Chief Financial Officer and Administrative Officer
Patricia M. McBratney	38	Vice President and Controller
Thomas W. Bosse	51	Vice President, General Counsel and Secretary
Kevin L. Timmons	49	Chief Technology Officer
Michael L. Duckett	47	Chief Operating Officer
Venkatesh S. Durvasula	46	Chief Commercial Officer
John F. Cassidy	58	Chairman
William E. Sullivan	58	Lead Independent Director
Roger T. Staubach	71	Independent Director
T. Tod Nielsen	47	Independent Director
Alex Shumate	62	Independent Director
Melissa E. Hathaway	44	Independent Director
David H. Ferdman	45	Director

The following are biographical summaries of the experience of our executive officers, chairman and directors of the board.

Gary J. Wojtaszek is our President, Chief Executive Officer and has been a member of our board of directors since January 2013. Mr. Wojtaszek was appointed to CBI s board of directors on July 29, 2011, and was named President of CyrusOne effective August 5, 2011. Upon consummation of our initial public offering, Mr. Wojtaszek resigned as a member of CBI s board of directors. Prior to becoming the President of CyrusOne in August 2011, Mr. Wojtaszek served as Chief Financial Officer of CBI beginning July 2008 and as Senior Vice President, Treasurer and Chief Accounting Officer for the Laureate Education Corporation in Baltimore, Maryland from 2006 to 2008. Prior to that, Mr. Wojtaszek worked from 2001 to 2008 at Agere Systems, the semiconductor and optical electronics communications division of Lucent Technologies, which was subsequently spun-off through an initial public offering. While at Agere Systems, Mr. Wojtaszek worked in a number of finance positions, ultimately serving as the Vice President of Corporate Finance, overseeing all Controllership, Tax and Treasury functions. Mr. Wojtaszek started his career in General Motors Company s New York treasury group and joined Delphi Automotive Systems as the regional European treasurer in connection with the initial public offering and spin-off of Delphi Automotive Systems from General Motors. Mr. Wojtaszek has an MBA from Columbia University and a BA from Rutgers University. Having previously served as CBI s Chief Financial Officer and President of CyrusOne, Mr. Wojtaszek brings to our board of directors critical knowledge and understanding of the data center colocation business coupled with an in-depth understanding of the company s capital structure.

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Kimberly H. Sheehy is our Chief Financial Officer and Administrative Officer. Ms. Sheehy joined CyrusOne in 2011 as the Chief Administrative Officer. Prior to that, she held various roles between 1996 and 2011 at CBI, including Treasurer and Vice President of Investor Relations from March 2011 through November 2011, Vice President of Finance and Treasurer from 2007 to 2011, and Vice President of Financial Planning and Analysis in 2007. Prior to joining CBI, Ms. Sheehy held accounting and tax positions at Ernst & Young.

Patricia M. McBratney is our Vice President and Controller. Ms. McBratney joined CyrusOne in January 2013 as Vice President and Controller. Prior to joining CyrusOne, Ms. McBratney held various accounting positions at Deloitte & Touche LLP. Ms. McBratney is a Certified Public Accountant with prior experience in both the consumer products and real estate industry. Ms. McBratney has also been involved in various initial public offerings, spin-offs, acquisitions, reverse acquisitions, and debt and equity offerings from 1998-2013 while being employed at Deloitte & Touche LLP.

Thomas W. Bosse is our Vice President, General Counsel and Secretary. Prior to joining CyrusOne in March 2013, beginning in 2003 he was a principal in The Law Offices of Thomas W. Bosse, PLLC, where he represented numerous companies in the communications and technology sectors, including CyrusOne, in financing, corporate governance, real estate, mergers & acquisitions, and commercial transactions. From 1999 to 2003 he was Associate General Counsel for Broadwing Inc. Mr. Bosse is a graduate of the University of Notre Dame School of Law.

Kevin L. Timmons is our Chief Technology Officer. Mr. Timmons joined CyrusOne in October 2011 as Chief Technology Officer. Prior to joining CBI he led Microsoft s global data center team as General Manager, Data Center Services beginning in 2009. Prior to that, Mr. Timmons held several positions between 1999 and 2009 within the operations team at Yahoo!. Mr. Timmons originally joined Yahoo! via the GeoCities acquisition in September 1999 as Director of Operations. He was then promoted to Senior Director in August 2000, and assumed the role of Vice President, Operations in February 2006.

Michael L. Duckett is our Chief Operating Officer. Mr. Duckett joined CyrusOne in November 2011 as Chief Operating Officer. Prior to joining CyrusOne, Mr. Duckett served as the President and Chief Operating Officer of CoreLink Data Centers LLC from 2010 to 2011. Prior to that, Mr. Duckett held a Senior Vice President of Operations position at Terremark Worldwide from 2005 to 2010, where he was responsible for the colocation, hosting and network business lines during a period when Terremark increased its revenue from approximately $50 million to over $300 million.

Venkatesh S. Durvasula is our Chief Commercial Officer, overseeing strategy, marketing and sales. Mr. Durvasula joined CyrusOne in October 2012. Prior to joining CyrusOne, Mr. Durvasula served as the Chief Marketing and Business Officer of Quality Technology Services (QTS) from March 2010 through April 2012. Prior to QTS, he was a co-founder and Chief Operating Officer of NYC-Connect, a privately-held interconnection business that was sold to Digital Realty Trust, Inc. and Telx in 2007. Following that sale, Mr. Durvasula served as the Chief Marketing Officer at Telx until 2009. Prior to NYC-Connect, Mr. Durvasula served as Vice President of Sales at AboveNet, Inc.

John F. Cassidy has been the Chairman of our board of directors since January 2013. Mr. Cassidy served as the President and Chief Executive Officer of CBI from July 2003 to January 2013 and a director of CBI since September 2002. Effective January 31, 2013, Mr. Cassidy retired as President and Chief Executive Officer of CBI and was appointed Vice Chairman of CBI s Board of Directors. Mr. Cassidy has held various other positions within CBI, including President and Chief Operating Officer of Cincinnati Bell Telephone Company and President of Cincinnati Bell Wireless Company. Having served as CBI s Chief Executive Officer from 2003 to 2013, including during the expansion of CBI s data center business, including the acquisition of Cyrus Networks, Mr. Cassidy brings to our board of directors critical knowledge and understanding of the products and services offered by CyrusOne, as well as a thorough understanding of the telecommunications industry in which it operates.

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William E. Sullivan has been a member of our board of directors since January 2013. Mr. Sullivan is our lead independent director and the chair of our audit committee. From March 2007 to May 2012, Mr. Sullivan served as the Chief Financial Officer of ProLogis Inc., a REIT operating as an owner, manager and developer of distribution facilities. Prior to that, Mr. Sullivan served as the Chairman and Chief Executive Officer of SiteStuff, Inc., beginning in June 2001. SiteStuff, Inc. is a procurement solutions company specializing in real estate property and facility management. Mr. Sullivan worked for Jones Lang LaSalle, and its predecessor LaSalle Partners, in a variety of positions from 1984 to 2001, including as Chief Financial Officer from 1997 to 2001 and as a member of the board of directors from 1997 to 1999. As a result of this background, Mr. Sullivan brings to our board of directors a comprehensive understanding of the commercial real estate industry coupled with extensive REIT management experience.

Roger T. Staubach has been a member of our board of directors since January 2013. Mr. Staubach has been the Executive Chairman, Americas, and a Director of Jones Lang LaSalle since July 2008. Mr. Staubach founded The Staubach Company in 1977 and served as its Chairman and Chief Executive Officer until June 2007, when he became its Executive Chairman. The Staubach Company merged with Jones Lang LaSalle in July 2008. A 1965 graduate of the United States Naval Academy with a B.S. degree in Engineering, Mr. Staubach served for four years as a Navy officer. He then joined the Dallas Cowboys professional football team as its quarterback, from which he retired in March 1980. Mr. Staubach is a member of the board of directors of Cinemark Holdings, Inc. and AMR Corporation, the parent company of American Airlines. Mr. Staubach was also the Chairman of the Host Committee for Super Bowl XLV, which was held in North Texas at the beginning of 2011. He has received numerous honors for his leadership in business, civic, philanthropic and athletic activities, including the 2006 Congressional Medal of Honor Patriot Award and the 2007 Horatio Alger Award. He has also been inducted into the Texas Business Hall of Fame and named a Distinguished Graduate by the United States Naval Academy. As a result of his long tenure as a chief executive officer, coupled with his experience as a Navy officer and then the quarterback for a highly successful professional football team, Mr. Staubach brings to our board of directors leadership qualities and perspectives on the importance of corporate ethics and integrity that will be valuable to its oversight of the Company. His years of building a significant real estate business add entrepreneurial and marketing expertise that are important to the oversight of our growth and our ability to innovate and serve clients within the real estate industry.

T. Tod Nielsen has been a member of our board of directors since January 2013. Mr. Nielsen is the Co-President, Applications Platform of VMware, Inc. Mr. Nielsen served as VMware s Chief Operating Officer from January 2009 to January 2011. Prior to that, he served as President and Chief Executive Officer of Borland Software Corporation from November 2005 to December 2008. From June 2005 to November 2005, Mr. Nielsen served as Senior Vice President, Marketing and Global Sales Support for Oracle Corporation, an enterprise software company. From August 2001 to August 2004, he served in various positions at BEA Systems, Inc., a provider of application infrastructure software, including Chief Marketing Officer and Executive Vice President, Engineering. Mr. Nielsen also spent 12 years with Microsoft in various roles, including General Manager of Database and Developer Tools, Vice President of Developer Tools, and at the time of his departure, Vice President of Microsoft s platform group. Mr. Nielsen is a current director of Club Holdings LLC and MyEdu. As a result of his background, Mr. Nielsen brings to our board of directors a strong technical background in software development, coupled with extensive management experience and knowledge of the information technology market.

Alex Shumate has been a member of our board of directors since January 2013. Mr. Shumate is also a member of our audit committee and serves as the chair of the compensation committee. Mr. Shumate is currently the Managing Partner, North America, of Squire, Sanders & Dempsey (US) LLP (an international law firm) since 2009. Prior to that, he served as the Managing Partner of the Columbus, Ohio office of Squire Sanders since 1991. He is a current director of The J.M. Smucker Company. He also served as a director of the Wm. Wrigley Jr. Company from 1998 until its acquisition in 2008, as well as Nationwide Financial Services from 2002 until its acquisition in 2009. He served as a director of CBI from 2005 to January 2013. Mr. Shumate resigned as a member of CBI s board of directors effective January 24, 2013 upon consummation of our initial public offering.

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With his legal background, his years of experience serving as the managing partner of a major law firm, and his service on the boards of other publicly-traded companies, including CBI, Mr. Shumate brings to our board of directors demonstrated managerial ability and a thorough understanding of the principles of good corporate governance.

Melissa E. Hathaway has been a member of our board of directors since January 2013. Ms. Hathaway is also a member of our audit committee and our compensation committee and serves as the chair of our nominating and corporate governance committee. Ms. Hathaway is President of Hathaway Global Strategies, LLC and a Senior Advisor at Harvard Kennedy School s Belfer Center, roles she has held since August 2009. Ms. Hathaway also served on the board of directors of Terremark Worldwide from February 2010 until its acquisition by Verizon Communications Inc. in March 2011. Previously, from February 2009 to August 2009, she led the development of the Cyberspace Policy Review in her role as the Acting Senior Director for Cyberspace in the National Security Council of President Barack Obama s administration. Prior to that, from March 2007 to February 2009, Ms. Hathaway served as Cyber Coordination Executive and Director of the Joint Interagency Cyber Task Force in the Office of the Director of National Intelligence under President George W. Bush. Before working in the Obama and Bush administrations, from June 1993 to February 2007, Ms. Hathaway was a Principal with Booz Allen & Hamilton, Inc., where she led the information operations and long-range strategy and policy support business units. Her efforts at Booz Allen supported key offices within the Department of Defense and Intelligence Community, including the U.S. Southern Command, the U.S. Pacific Command, the Office of the Secretary of Defense for Net Assessment, the Central Intelligence Agency, the Defense Intelligence Agency and the Office of the Director of National Intelligence. As a result of her background, Ms. Hathaway brings to our board of directors more than 20 years of high-level public and private-sector experience and is considered one of the leading experts on cyber security matters.

David H. Ferdman has been a member of our board of directors since January 2013. Mr. Ferdman was the founder of Cyrus Networks, where he served as President and Chief Executive Officer from 2000 until June 2010. Mr. Ferdman served as the President of Cyrus Networks until August 2011 and served as the Chief Strategy Officer of CyrusOne until January 2013. Upon consummation of our initial public offering, Mr. Ferdman resigned from his employment with the Company. Prior to founding Cyrus Networks, Mr. Ferdman was the Chief Operating Officer and co-founder of UWI Association Programs (d/b/a Eclipse Telecommunications), a facilities-based telecommunications service provider (UWI). As Chief Operating Officer of UWI, Mr. Ferdman was instrumental in the company s rapid growth, which culminated in its acquisition by IXC Communications (now part of Level 3 Communications Inc.) in 1998. As a result of his background, Mr. Ferdman brings to our board of directors a comprehensive understanding of our business coupled with extensive experience in the data center industry.

Board Committees

Under our corporate governance guidelines, the composition of each of our committees, including the audit committee, compensation committee and the nominating and corporate governance committee must comply with the listing requirements and other rules and regulations of the NASDAQ Global Select Market, as amended or modified from time to time. Our corporate governance guidelines define independent director by reference to the rules, regulations and listing qualifications of the NASDAQ Global Select Market which generally deem a director to be independent if the director has no relationship to us that may interfere with the exercise of the director s independence from management and our company. Our board of directors may from time to time establish other committees to facilitate the management of our company. The operating partnership agreement of our operating partnership currently requires that, so long as CBI has the right to nominate at least one director, CBI will have the right to designate at least one of its nominees to serve on each committee (if the nominee is qualified as independent under the applicable rules, regulations and listing qualifications of the NASDAQ Global Select Market) other than any committee whose purpose is to evaluate or negotiate any transaction with CBI. Mr. Cassidy will serve as our Chairman of the board of directors.

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Audit Committee. The audit committee helps ensure the integrity of our financial statements, the qualifications and independence of our independent auditor and the performance of our internal audit function and independent auditors. The audit committee selects, assists and meets with the independent auditor, oversees each annual audit and quarterly review, evaluates the performance of our internal audit controls and prepares the report that federal securities laws require be included in our annual proxy statement. Mr. Sullivan has been designated as chair of the audit committee and elected as the financial expert. Mr. Shumate and Ms. Hathaway will also serve as members of our audit committee. Each member of the audit committee has been determined to be independent in accordance with the applicable standards of the NASDAQ Global Select Market.

Compensation Committee. The compensation committee reviews and approves the compensation and benefits of our executive officers, administers and makes recommendations to our board of directors regarding our compensation and stock incentive plans, produces an annual report on executive compensation for inclusion in our proxy statement and publishes an annual committee report for our stockholders. Each member of the compensation committee has been determined to be independent in accordance with the applicable standards of the NASDAQ Global Select Market. Mr. Shumate has been designated as chair of the compensation committee. Mr. Sullivan and Ms. Hathaway will also serve as members of our compensation committee.

Nominating and Corporate Governance Committee. The nominating and corporate governance committee develops and recommends to our board of directors a set of corporate governance guidelines, a code of business conduct and ethics and related company policies and periodically reviews and recommends updates and changes to such guidelines, code and policies to the board of directors, monitors our compliance with corporate governance requirements of state and federal law and the rules and regulations of the NASDAQ Global Select Market, establishes criteria for prospective members of our board of directors and conducts candidate searches and interviews. Ms. Hathaway has been designated as chair of the nominating and corporate governance committee. Mr. Nielsen and Mr. Staubach will also serve as members of our nominating and corporate governance committee.

Code of Ethics

We have adopted a corporate code of business conduct and ethics (the code) relating to the conduct of our business by our employees, officers and directors. The code is available on our website, www.cyrusone.com, in the Investor Relations section. Any waivers to the code that may be granted to employees, directors and officers and any material amendments to the code will be posted on our website.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers, and the persons who beneficially own more than ten percent of our common stock, to file reports of ownership of, and changes in ownership of, our securities with the SEC, and to file copies of such reports with us. We did not have a class of securities registered under the Exchange Act in 2012. Therefore, Section 16(a) of the Exchange Act did not apply, and our directors, executive officers, and the persons who beneficially own more than ten percent of our common stock, were not required to file reports of ownership of, and changes in ownership of, our securities with the SEC.

Based solely upon a review of the copies of the reports furnished to us from January 1, 2013 through the date of this Annual Report on Form 10-K, we believe that no director, executive officer or person who beneficially owns more than ten percent of our common stock failed to file, on a timely basis, the reports required by Section 16(a) of the Exchange Act, except Ms. Patricia M. McBratney, executive officer, who inadvertently failed to file, on a timely basis, her Form 3 Initial Statement of Beneficial Ownership of Securities. Ms. McBratney s late Form 3 was subsequently filed with the SEC.

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ITEM 11. EXECUTIVE COMPENSATION
Summary Compensation Table

The following table summarizes the compensation of each of our named executive officers for the executive s service to the Predecessor for the fiscal years ended December 31, 2012 and 2011, respectively.

Name and Principal Position	Year	Salary	Bonus	Stock Awards (1)	Option Awards (2)	Non-Equity Incentive Plan Compensation (3)	Nonqualified Deferred Compensation Earnings	All Other Compensation (4)	Total
Gary J. Wojtaszek, President,	2012	$ 576,000	$	$ 250,000	$ 250,000	$ 649,094	$	$ 6,366	$ 1,731,460
Chief Executive Officer	2011	391,592		212,331		490,425		6,879	1,101,227
David H. Ferdman,	2012	360,433				360,433		11,550	732,416
Chief Strategy Officer	2011	358,021				426,663		11,386	796,070
Kevin L. Timmons,	2012	281,731				412,981		10,000	704,712
Chief Technology Officer									

(1) This amount reflects the grant-date fair value of the CBI stock-settled performance units issued in 2012 to Mr. Wojtaszek for the 2012-2014 performance cycle pursuant to the Cincinnati Bell Inc. 2007 Long Term Incentive Plan. Such amount assumes payout at target, the most probable outcome at the time of the grant, based on a grant date fair value of $3.40 per share of CBI common stock, computed in accordance with FASB ASC 718, assuming the number of awards that can be earned if target performance conditions are achieved. If the maximum payout is earned, the value of the performance units based on the stock price at the date of grant will be $375,000.

(2) This amount reflects the grant-date fair value, computed in accordance with FASB ASC 718, of the CBI stock options issued in 2012 to Mr. Wojtaszek.

(3) Mr. Wojtaszek s dollar amount of short-term incentive awards has been determined to be $649,094. Payment, less any partial distributions received throughout 2012, was made in February 2013. The dollar amounts of the short-term incentive awards to Messrs. Ferdman and Timmons were determined to be $360,433 and $294,231, respectively. In addition, Mr. Timmons received a cash settled performance unit award of $118,750 which was earned in 2012. Payment, less any partial distribution received throughout 2012, was made in February 2013. In addition, it should be noted that the amounts previously reported for Mr. Ferdman and Mr. Timmons were $256,261 and $209,192, respectively.

(4) The table below shows the components of the All Other Compensation column.

Name	Year	401(k) Match(1)	Life Insurance	Total All Other Compensation
Gary J. Wojtaszek	2012	$ 6,366	$	$ 6,366
	2011	6,879		6,879
David H. Ferdman	2012	10,000	1,550(2)	11,550
	2011	8,250	3,136	11,386
Kevin L. Timmons	2012	10,000		10,000

(1) Under the terms of the Cincinnati Bell Retirement Savings Plan, CBI s matching contribution is equal to 100% on the first 3% and 50% on the next 2% of contributions made to the plan by the participant. Eligible compensation includes base salary plus any cash incentive compensation paid to eligible participants. The maximum CBI matching contribution is $9,800. Mr. Wojtaszek is a participant in the Cincinnati Bell Retirement Savings Plan. Under the terms of the CyrusOne 401(k) Savings Plan, discretionary matching contributions to the CyrusOne 401(k) Savings Plan may be made, subject to applicable statutory maximum contribution amounts. For 2012, CyrusOne s matching contribution was equal to 50% on the first 8% of contributions made to the plan by the participant. Messrs. Ferdman and Timmons are participants in the CyrusOne 401(k) Savings Plan.

(2) This amount reflects a life insurance premium paid by the Predecessor in 2012 for fiscal year 2013.

Narrative Disclosure to Summary Compensation Table

As an emerging growth company under the rules of the Securities and Exchange Commission, we are not required to include a Compensation Discussion and Analysis section and have elected to comply with the scaled disclosure requirements applicable to emerging growth companies.

The following describes material features of the compensation disclosed in the Summary Compensation Table:

CBI Employment Agreements

During 2012, each of Messrs. Wojtaszek, Ferdman and Timmons were employed pursuant to an employment agreement, which sets forth, among other things, the executive s base salary, bonus opportunity, and entitlement to participate in benefit and pension plans and to receive CBI equity awards and post-termination benefits and obligations.

Mr. Wojtaszek s employment agreement with CBI, amended and restated effective as of January 1, 2009, and further amended, effective as of January 27, 2011, provided for a one-year term of employment subject to automatic one-year extensions and for both a minimum base salary and a minimum bonus target of $550,000 per year.

Mr. Ferdman s employment agreement with CBI, CyrusOne Holdings LLC and Cyrus Networks, dated May 12, 2010, provided for a one-year term of employment subject to automatic one-year extensions, unless 60 days notice of non-renewal was provided by either party prior to the conclusion of the then-current term and for both a minimum base salary and a minimum bonus target of $350,000 per year. Effective upon the completion of the initial public offering, Mr. Ferdman resigned.

Mr. Timmons s employment agreement with CBI, dated September 14, 2012, provided for a one-year term of employment subject to automatic extensions, unless otherwise terminated by either party prior to the conclusion of the then-current term and for both a minimum base salary and a minimum bonus target of $300,000 per year.

Each of Messrs. Wojtaszek s, Ferdman s and Timmons s employment agreements provided for certain payments and benefits in the event of a termination of employment. See Potential Payments Upon Termination or Change in Control. In 2013, certain new employment arrangements were entered into with certain of our executive officers, including Messrs. Wojtaszek, Ferdman and Timmons, that, among other things, address the terms of their termination of employment with CBI and their employment with CyrusOne. See Employment Agreements and Arrangements. Effective January 23, 2013, Mr. Ferdman resigned from CBI.

CBI Performance Units

The CBI performance units granted to Messrs. Wojtaszek and Timmons in 2012 pursuant to the Cincinnati Bell Inc. 2007 Long Term Incentive Plan, which may be paid in CBI common shares, cash, or a combination thereof, are based on the achievement of specific CBI quantitative goals over the 2012-2014 performance cycle. Such awards were granted during the first quarter of 2012 following finalization and approval by the full CBI board of directors of the one-year, two-year cumulative and three-year cumulative financial goals for each of the three performance periods within the 2012-2014 cycle.

The number of performance units granted was based on the long-term incentive dollar value approved by CBI s compensation committee for Messrs. Wojtaszek and Timmons and the value of one share of CBI stock on the date of grant. For each of the one-year, two-year cumulative and three-year cumulative performance periods, the performance measure is unlevered cash return on average assets (UCR), which is defined as operating cash flow, excluding interest payments, as a percentage of average total assets. UCR must be at least 90% of the target goal in order to generate a threshold level payout equal to 75% of the target award for each executive and at least 100% of the target goal in order to generate a target level payout equal to 100% of the target award for each executive, which, for the one-year and two-year cumulative performance periods, represents the maximum payout for the performance units. For the three-year cumulative performance period, actual UCR of 110% of the target goal or higher will result in the achievement of a maximum level payout equal to 150% of the target award for each executive. Payout levels between 75% and 100%, and 100% and 150%, as applicable, are determined based on linear interpolation rounded to the nearest one-tenth of 1%. The UCR target is 16.0% for the cumulative 2012-2014 performance period. In determining the number of performance units to be paid out for each such performance period, the total number of performance units paid out in the previous performance period or periods is subtracted from the performance units earned for such performance period.

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The terms of the applicable award documents generally provided that in the event that Mr. Wojtaszek s or Mr. Timmons s employment with CBI or any of its subsidiaries terminated for any reason other than disability, death, by CBI without cause or by such executive due to a constructive termination, prior to the date on which CBI distributes the value of the number of performance units required to be distributed for the 2012-2014 performance cycle (the Final Distribution Date), such executive would have forfeited his rights to receive the value of any additional performance units. In connection with the our initial public offering, Messrs. Wojtaszek, Ferdman and Timmons resigned their positions with CBI, effective January 23, 2013, and forfeited their respective rights to receive the value of any additional performance units.

2012 Outstanding Equity Awards at Fiscal Year-End

The following table describes the outstanding equity awards held by our named executive officers as of December 31, 2012. All amounts in the below table relate to shares of CBI common stock and do not reflect any equity awards granted in connection with our initial public offering.

	Option Awards							Stock Awards	
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price**	**Option Expiration Date [1]**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#) [2]**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested[3]**
Gary J. Wojtaszek	83,590			$ 1.67	12/5/18				
	207,352			1.39	1/30/19				
	198,607	12,677		2.91	1/29/20				
	100,439	95,872		2.54	12/7/20				
		243,507		3.40	1/27/22				
								228,882	$ 1,254,273
David H. Ferdman	73,800	16,200		1.32	6/11/20				
Kevin L. Timmons									

(1) All options and stock appreciation rights granted are for a maximum period of 10 years from the date of grant and vest over a three-year period. Awards granted in 2012 vest over a three-year period based on achievement of the UCR performance measure. Awards granted prior to 2012 vest 28% on the first anniversary of the original date of grant and, thereafter, at the rate of 3% per month for the next 24 months.

(2) Amounts include performance units granted for the 2010-2012 performance cycle assuming vesting at the maximum level less performance units earned and vested for the 2010 period on February 28, 2011. Amounts also include the performance unit grants made for the 2011-2013 performance cycle on January 28, 2011 assuming vesting at the maximum level. Amounts also include the performance unit grants made for the 2012-2014 performance cycle on January 26, 2012, assuming vesting at the maximum level. The amounts shown above for 2012 awards reflect payout at the maximum level.

(3) Assuming the maximum number of shares is earned, amounts represent the equity incentive plan awards not yet vested. The value is based on the closing price of CBI s common shares on December 31, 2012 ($5.48).

Retirement Benefits

Mr. Wojtaszek participated in the Cincinnati Bell Management Pension Plan (the Management Pension Plan), which contains both a qualified defined benefit plan and a nonqualified excess benefit plan. Mr. Wojtaszek is vested in his benefits under the Management Pension Plan, and upon retirement may elect a lump-sum or equivalent annuity form of payment of such benefits without any reduction. Normal retirement eligibility under the Management Pension Plan is, for employees who became participants in the Management Pension Plan after January 1, 1988 (such as Mr. Wojtaszek), the later of (i) age 65 or (ii) five years from the date participation in the Management Pension Plan began.

Pursuant to a 2009 amendment to the Management Pension Plan, pension benefits for certain management employees below 50 years of age were frozen. As a result of the 2009 amendment, Mr. Wojtaszek, who was below 50 years of age at the time, is no longer eligible to accrue benefits under the Management Pension Plan.

Each participant s account under the Management Pension Plan is generally credited with assumed interest for each calendar year at a certain interest rate. Such interest rate for 2012 was 4.0% per annum.

As of December 31, 2012, each of the named executive officers participated in either the Cincinnati Bell Retirement Savings Plan (the CBI Savings Plan) or the CyrusOne 401(k) Savings Plan (the CyrusOne Savings Plan), each of which is a tax-qualified defined contribution plan designed to assist employees in providing for their retirement. Pursuant to the CBI Savings Plan, CBI is required to make matching contributions equal to 100% on the first 3% of compensation contributed by a participant and 50% on the next 2% of compensation contributed by a participant subject to a maximum matching contribution of $9,800. CBI may, upon notice to a participant, change the method by which it determines plan contributions under the CBI Savings Plan. Matching contributions in accordance with the formula described above were made to the CBI Savings Plan during the fiscal year ended December 31, 2012. See Summary Compensation Table for additional detail. Pursuant to the CyrusOne Savings Plan, discretionary matching contributions may be made to such plan, subject to applicable statutory maximum matching contribution amounts. Discretionary matching contributions were made to the CyrusOne Savings Plan during the fiscal year ended December 31, 2012. See Summary Compensation Table for additional detail.

Potential Payments Upon Termination or Change in Control

CBI s plans and arrangements provide for certain payments and benefits upon termination of employment at any time and in connection with a change in control of CBI. This section describes such potential payments that would have been made to Messrs. Wojtaszek, Ferdman and Timmons pursuant to each such executive s employment agreement and long-term incentive award agreements. For purposes of this section, the triggering events are assumed to have taken place on December 31, 2012.

As mentioned above, in 2013, new employment arrangements were entered into with our executive officers, including Messrs. Wojtaszek and Timmons, that, among other things, address the terms of their termination of employment with CBI and their employment with CyrusOne See Employment Agreements and Arrangements . Effective January 23, 2013, Mr. Ferdman resigned from CBI.

The summary below sets forth the terms of the former employment agreements with Messrs. Wojtaszek, Ferdman and Timmons as in effect on December 31, 2012 and does not include the terms of the arrangements entered into in connection with our initial public offering nor does it consider Mr. Ferdman s resignation effective January 23, 2013.

Payments Upon Termination Not in Connection with a Change in Control

Under their former agreements, as in effect December 31, 2012, in the event Mr. Wojtaszek s, Mr. Ferdman s or Mr. Timmons s former employment was terminated for any reason by CBI or Cyrus Networks, as applicable, or by such executive, he would be entitled, subject to his execution of a general release of claims in favor of CBI or Cyrus Networks (other than with respect to any accrued but unpaid salary and bonus), as applicable, to those benefits which he had a non-forfeitable right to receive, which included any shares of stock he may have owned outright, vested options which may have been exercisable for a period of 90 days following termination and vested amounts under CBI s pension and savings plans, as well as the payments and benefits described below. In addition, each of Messrs. Wojtaszek, Ferdman and Timmons would generally continue to be bound by the non-disclosure, non-compete and non-solicitation provisions of his former employment agreement.

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In the event Mr. Wojtaszek s, Mr. Ferdman s or Mr. Timmons s former employment were terminated by CBI or Cyrus Networks, as applicable, for cause, or such executive terminated his employment voluntarily, he would not entitled to any payments from CBI or Cyrus Networks other than those payments and benefits set forth in the immediately preceding paragraph.

Pursuant to the terms of their respective former employment agreements, in the event Mr. Wojtaszek s, Mr. Ferdman s or Mr. Timmons s former employment was terminated by CBI or Cyrus Networks, as applicable, without cause or such executive terminated his former employment due to a constructive termination, such executive would have been entitled to (i) a payment equal to two times his base salary for Mr. Wojtaszek and Mr. Ferdman, and 1.6 times his base salary for Mr. Timmons, (ii) continued medical, dental, vision and life insurance benefits during the one-year period following his termination of employment on the same basis as any active salaried employee provided any required monthly contributions are made, (iii) continued treatment as an active employee during the one-year period following termination with respect to any outstanding stock option, restricted stock or long-term incentive award (other than any award granted pursuant to the 2010 Cyrus Performance Plan (the Cyrus Plan)), (iv) the ability to exercise any vested options for an additional 90 days after the end of the one-year period following his termination, and (v) the sum of any forfeitable benefits accrued under any qualified or non-qualified pension, profit-sharing 401(k) or deferred compensation plan of CBI, Cyrus Networks, or their respective affiliates which would have vested if such executive had remained employed during the one-year period following termination.

In the event Mr. Wojtaszek s, Mr. Ferdman s or Mr. Timmons s former employment was terminated due to death, such executive s beneficiary would have been entitled to (i) a payment equal to the base salary and bonus accrued and payable to such executive upon the date of his death, (ii) accelerated vesting of all outstanding options and the ability to exercise such options for the one-year period following the date of his death and (iii) full vesting and payout at target amounts of any awards granted under CBI s long-term incentive plans, which would have been forfeited upon a termination due to death and any award granted pursuant to the Cyrus Plan, which would have remained outstanding and been settled only upon the consummation of a transaction.

In the event Mr. Wojtaszek s, Mr. Ferdman s or Mr. Timmons s former employment was terminated due to disability, he would have been entitled to (i) a payment equal to the base salary and bonus accrued and payable to him upon the date of termination, (ii) accelerated vesting of all outstanding options and the ability to exercise such options for the one-year period following the date of termination, (iii) continued vesting of all outstanding long-term incentive awards in accordance with the terms of such awards and participation in any outstanding long-term incentive plans and (iv) continued consideration as an employee for all other benefits provided the disabling conditions continue.

Payments Upon Termination in Connection with a Change in Control

If Mr. Wojtaszek s, Mr. Ferdman s or Mr. Timmons s former employment was terminated without cause by CBI or Cyrus Networks, as applicable, or the executive terminated his former employment due to a constructive termination within the one-year period following a change in control of CBI, he would have been entitled to (i) a payment equal to two times the sum of his base salary and target bonus, (ii) continued medical, dental, vision and life insurance coverage during the one-year period following his termination of employment on the same basis as other active employees provided any required monthly contributions are made, (iii) accelerated vesting of any outstanding options, restricted shares, and/or other equity awards and the ability to exercise such options until, with respect to Mr. Wojtaszek, the earlier of (x) the latest date such options would be exercisable if such options had vested immediately prior to the termination of Mr. Wojtaszek s employment and (y) the one-year period following termination, or, with respect to Mr. Ferdman, the latest date such options would be exercisable if such options had vested immediately prior to Mr. Ferdman s termination, (iv) accelerated vesting and payout at target levels of any awards granted under long-term incentive plans and (v) the sum of any forfeitable benefits accrued under any qualified or non-qualified pension, profit-sharing 401(k) or deferred compensation plan of CBI, Cyrus Networks, or their respective affiliates which would have vested if such executive had remained employed during the one-year period following termination.

Defined Terms

Cause, for purposes of Mr. Wojtaszek s and Mr. Timmons s former employment agreement, meant a determination that there had been fraud, misappropriation, embezzlement or misconduct constituting serious criminal activity on the part of the executive.

Cause, for purposes of Mr. Ferdman s former employment agreement, meant a determination that there had been fraud, misappropriation, embezzlement or conviction of, or plea of guilty or no contest or similar plea with respect to, a felony on the part of Mr. Ferdman.

Change in Control, for purposes of each of Messrs. Wojtaszek, Ferdman and Timmons s former employment agreements as well as Messrs. Wojtaszek and Timmons s performance unit award agreements, meant the occurrence of any of the following events:

(i) a change in the ownership of CBI (within the meaning of Section 1.409A-3(i)(5)(v) of the Treasury regulations);

(ii) a change in the effective control of CBI (within the meaning of Section 1.409A-3(i)(5)(vi) of the Treasury regulations); and

(iii) a change in the ownership of a substantial portion of the assets of CBI (within the meaning of Section 1.409A-3(i)(5)(vii) of the Treasury regulations).

Constructive Termination, for purposes of each of Messrs. Wojtaszek, Ferdman and Timmons s former employment agreements, meant the occurrence of, without such executive s consent, (i) a material reduction in such executive s authority, reporting relationship or responsibilities, (ii) a reduction in such executive s base salary or bonus target, (iii) with respect to Mr. Wojtaszek, a relocation from the greater Cincinnati, Ohio area by 50 or more miles, with respect to Mr. Ferdman, a relocation from Houston, Texas, by 30 or more miles and with respect to Mr. Timmons, a relocation from his designated office by 50 or more miles, and (iv) with respect to Mr. Ferdman, any material breach of his employment agreement by Cyrus Networks, provided that Cyrus Networks failed to remedy such breach within 10 days of Mr. Ferdman s delivery of notice of such breach and provided further that Mr. Ferdman s termination of employment had to have been effected within 10 days following the expiration of such 10-day period.

Employment Agreements and Arrangements

As mentioned above, certain employment arrangements were entered into with certain of our executive officers in 2013, including Messrs. Wojtaszek and Timmons. The provisions of these arrangements are discussed below.

CBI Resignation Agreements with Gary J. Wojtaszek and David H. Ferdman

On January 23, 2013 (the Resignation Date), CBI entered into a Resignation Letter with Mr. Wojtaszek in connection with his resignation and a Resignation Letter with Mr. Ferdman in connection with his resignation (together, the Resignation Letters). Pursuant to the terms of the Resignation Letters, each of Messrs. Wojtaszek and Ferdman is not entitled to any severance payments under his former CBI employment agreement as a result of his resignation. Awards previously granted to each of Messrs. Wojtaszek and Ferdman that were scheduled to vest according to their terms in connection with the closing of the initial public offering were unaffected by the terms of the Resignation Letters and continue to vest and become payable in accordance with their terms. However, any other awards that remained unvested as of the Resignation Date were forfeited. In addition, pursuant to the terms of the Resignation Letters, Messrs. Wojtaszek and Ferdman each remained eligible to receive an annual incentive bonus award in accordance with and under the terms of CBI s annual incentive plan and the applicable award agreement for fiscal year 2012.

In exchange for each of their full waivers and releases of claims and covenants not to sue contained in the Resignation Letters, Mr. Wojtaszek was paid a lump-sum cash payment of $450,815 and Mr. Ferdman was paid a lump-sum cash payment of $16,131, subject, in each case, to all applicable and required withholdings.

Messrs. Wojtaszek and Ferdman each remain subject to confidentiality and intellectual property covenants indefinitely and non-competition, non-solicitation and non-interference covenants for a period of one year, in each case, following the applicable executive officer s resignation and as provided in his former CBI employment agreement. The Resignation Letters provided that Messrs. Wojtaszek and Ferdman s employment by or service to the Company or any of its subsidiaries or affiliates will not be a breach of his non-competition, non-solicitation and non-interference obligations under his former CBI employment agreement.

Employment Agreements with Gary J. Wojtaszek and Kevin L. Timmons

On January 24, 2013, with the approval of the Board, the Company entered into, through its subsidiary CyrusOne LLC (CyrusOne LLC), an employment agreement with Mr. Wojtaszek (the Wojtaszek Agreement) and an employment agreement with Mr. Timmons (the Timmons Agreement, together with the Wojtaszek Agreement, the Employment Agreements).

Term. Pursuant to the Employment Agreements, the term of employment of each of Messrs. Wojtaszek and Timmons began on January 24, 2013 (the Effective Date) and will end on the first anniversary of the Effective Date; *provided*, *however*, that on the first anniversary of the Effective Date and each subsequent anniversary of the Effective Date, the term of each of the Employment Agreements will automatically be extended for a period of one additional year, unless earlier terminated in accordance with the terms of the applicable Employment Agreement.

Title. Pursuant to the Employment Agreements, Mr. Wojtaszek will serve as the President and Chief Executive Officer of the Company and Mr. Timmons will serve as the Chief Technology Officer of the Company.

Compensation and Benefits. Pursuant to the Employment Agreements, Mr. Wojtaszek s initial annual base salary will be $576,000 per year and Mr. Timmons initial annual base salary will be $300,000 per year, in each case, payable in accordance with CyrusOne LLC s regular payroll practices. In addition to his base salary, each of Messrs. Wojtaszek and Timmons will also be eligible to receive an annual bonus for each calendar year in which services are performed under the applicable Employment Agreement. Each year, each of Messrs. Wojtaszek and Timmons will be given a bonus target of not less than 100% his then current base salary, in each case, subject to proration for a partial year. Each of Messrs. Wojtaszek and Timmons s bonus award will generally be subject to the terms and conditions of the Company s annual incentive plan. In each year during the term of the applicable Employment Agreement, each of Messrs. Wojtaszek and Timmons will be eligible to be considered for grants of awards under any of the Company s long-term incentive compensation plans maintained by the Company for the benefit of certain employees and each is eligible to participate in the various employee benefit plans and programs which are made available to similarly situated officers of the Company. Each will be reimbursed in accordance with CyrusOne LLC s then current travel and expense policies for all reasonable and necessary expenses incurred by him in the course of his performance of his duties under the applicable Employment Agreement.

Termination Events.

Disability and Death. The employment of each of Messrs. Wojtaszek and Timmons may be terminated by either CyrusOne LLC or the applicable executive officer upon such his inability to perform the services required by his Employment Agreement because of any physical or mental infirmity for which he receives disability benefits under any disability plans generally made available to employees. Upon such a termination event, CyrusOne LLC will pay the applicable executive officer his accrued compensation (base salary, bonus or otherwise) and will provide him with disability benefits and all other benefits in accordance with the provisions of the applicable disability plans and other applicable plans. The employment of each of Messrs. Wojtaszek and Timmons will be automatically terminated upon his death, and CyrusOne LLC will pay his estate his accrued compensation (base salary, bonus or otherwise). In each case, any outstanding equity or non-equity incentive awards will be treated in accordance with the applicable plan and agreement documents.

Cause. CyrusOne LLC may terminate the employment of each of Messrs. Wojtaszek and Timmons immediately, upon written notice, for Cause. CyrusOne LLC will generally have Cause to terminate each applicable executive officer only if, in the case of Mr. Wojtaszek, the Board, or, in the case of Mr. Timmons, the Company, determines there has been fraud, misappropriation, embezzlement or misconduct constituting serious criminal activity on the part of such executive officer. Upon termination for Cause, the applicable executive officer will be entitled only to accrued compensation.

Without Cause or Constructive Termination. In the event CyrusOne LLC terminates the employment of either Mr. Wojtaszek or Mr. Timmons, upon written notice, for any reason other than for Cause or such executive officer s death, disability or in connection with a Change in Control (which has the meaning set forth in the CyrusOne 2012 Long Term Incentive Plan) or in the event the applicable executive officer terminates his employment as a result of Constructive Termination (as defined below):

- on the date that is 60 days after the date of termination, and subject to CyrusOne LLC s receipt of an executed and irrevocable release from the applicable executive officer, CyrusOne LLC will pay such executive officer in a lump-sum cash payment an amount equal to 2 times the sum of his annual base salary rate then in effect;

- for the purposes of any outstanding stock option, restricted stock award or other outstanding incentive award, the portion of any such outstanding award that would otherwise have vested on or prior to the end of the one-year period beginning at the time of such termination (the Severance Period) will generally become vested and exercisable as of immediately before the termination of the term of employment;

- if applicable, an amount equal to the sum of (a) any forfeitable benefits of such executive officer under any nonqualified pension, profit sharing, savings or deferred compensation plan that would have vested if the term of his employment had not been terminated prior to the end of the Severance Period, plus (b) any additional vested benefits which would have accrued for such executive officer under any nonqualified defined benefit pension plan if the term of his employment had not been terminated prior to the end of the Severance Period, and if such executive officer s base salary and bonus target had not increased or decreased after such termination, will be payable to such executive officer at the same time and in the same manner as such benefits would have been paid under such plan or plans had such benefits vested and accrued under such plan or plans at the time of the termination of his employment (the Nonqualified Benefit);

- if applicable, an amount equal to the sum of (a) any forfeitable benefits of such executive officer under any qualified pension, profit sharing, 401(k) or deferred compensation plan that would have vested prior if the term of his employment had not been terminated prior to the end of the Severance Period, plus (B) any additional vested benefits which would have accrued for such executive officer under any qualified defined benefit pension plan if the term of his employment had not been terminated prior to the end of the Severance Period, and if such executive officer s base salary and bonus target had not increased or decreased after such termination, will be paid by CyrusOne LLC in one lump sum 60 days after such termination of employment, subject to CyrusOne LLC s receipt of an executed and irrevocable release from the applicable executive officer (the Qualified Benefit); and for the remainder of the Severance Period, CyrusOne LLC will continue to provide such executive officer with medical, dental, vision and group term life coverage comparable to the medical, dental, vision and group term life coverage in effect for such executive officer immediately prior to such termination (the Medical Benefit). To the extent that such executive officer would have been eligible for any post-retirement medical, dental, vision or group term life benefits from CyrusOne LLC if such executive officer had continued in employment through the end of the Severance Period, CyrusOne LLC will provide such post-retirement benefits to him after the end of the Severance Period (the Post-Retirement Medical Benefit).

For the purposes of each of the Employment Agreements, Constructive Termination will generally be deemed to have occurred if, without the applicable executive officer s consent, (a) there is a material adverse change in the reporting responsibilities set forth in his Employment Agreement or there is otherwise a material reduction in his authority, reporting relationship or responsibilities, (b) there is a material reduction in his base salary or bonus target or (c) he is required by CyrusOne LLC to relocate more than 50 miles from his designated office in effect as of the Effective Date.

Change of Control. In the event of a Change in Control, the term of employment of each of Messrs. Wojtaszek and Timmons will terminate automatically if, within one year of such Change in Control: (a) the applicable executive officer elects to terminate his employment with CyrusOne LLC as a result of Constructive Termination or (b) CyrusOne LLC terminates the employment of such executive officer for any reason other than for Cause or his death or disability:

on the date that is 60 days after the date of termination, and subject to CyrusOne LLC s receipt of an executed and irrevocable release from the applicable executive officer, CyrusOne LLC will pay him in a lump-sum cash payment an amount equal to the product of multiplying (a) the sum of his annual base salary rate and his annual bonus target, in each case, as then in effect by (b) two;

any outstanding stock option, restricted stock award or other outstanding incentive award that is not vested and exercisable at the time of such termination will become vested and exercisable as of immediately before the termination of the term of employment; and

such executive officer will be entitled to the Nonqualified Benefit, the Qualified Benefit, the Medical Benefit, and, to the extent applicable, the Post-Retirement Medical Benefit.

In the event that Section 280G of the Internal Revenue Code of 1986, as amended, applies to the payments and benefits set forth above, the aggregate amount of such payments and benefits payable to the applicable executive officer will not exceed the amount which produces the greatest after-tax benefit to him after taking into account any applicable excise tax to be payable by him.

Voluntary Resignation by Officer. Each of Messrs. Wojtaszek and Timmons may resign upon 60 days prior written notice to CyrusOne LLC. In the event of such a resignation, CyrusOne LLC will pay the applicable executive officer his base salary through the date of such resignation, any bonus earned but not paid at the time of such resignation and any other vested compensation or benefits called for under any compensation plan or program.

Restricted Covenants. Pursuant to the Employment Agreements, each of Messrs. Wojtaszek and Timmons is subject to confidentiality and intellectual property covenants during the term of his employment and thereafter. In addition, each is subject to non-competition, non-solicitation and non-interference covenants during the term of his employment and for a period of one year following the cessation of his employment for any reason.

Compensation of Directors

Our directors did not receive any compensation in 2012. Effective January 24, 2013, we anticipate each of our directors who was not an employee of our company or our subsidiaries will receive going forward the following as compensation for services as a director: an initial equity grant of restricted stock with a grant-date fair value of $105,000, an annual cash retainer of $50,000 (except as specified below in the case of our lead independent director and our non-executive chair), and an annual equity grant with a grant-date fair value of $100,000 for the director s initial 12 months of service. The equity awards granted to our directors will be made pursuant to our 2012 Long Term Incentive Plan. On January 24, 2013, restricted stock awards were granted to our directors are expected to vest in three equal installments, with the first installment vesting on May 15, 2014 and the second and third installments vesting on the second and third anniversaries of the date of grant, respectively, subject to the director s continued service on our board of directors. See Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters. Our lead independent director will receive an annual cash retainer of $75,000, and our non-executive chair will receive an annual cash retainer of $100,000. The director who serves as chair of the audit committee will receive an additional annual retainer of $15,000, and the directors who serve as chairs of the compensation committee and the nominating and corporate governance committee each will receive an additional annual retainer of $10,000. Directors who are employees of our company or our subsidiaries will not receive compensation for their services as directors. We will not provide any per-meeting compensation to any of our directors.

Compensation Committee Interlocks and Insider Participation

There are no compensation committee interlocks and none of our employees participate on the compensation committee.

Compensation Committee Report

The compensation committee has reviewed and discussed the disclosures on executive compensation with management and, based on such review and discussions, the compensation committee recommended to our board of directors that these disclosures be included in this Form 10-K. The compensation committee is comprised of the following individuals:

Alex Shumate (Chair)
William E. Sullivan
Melissa E. Hathaway

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth certain beneficial ownership information as of January 24, 2013 unless otherwise noted. The table includes shares of our common stock and shares of common stock into which operating partnership units are exchangeable for (i) each person who is known by us to be beneficial owner of 5% or more of our outstanding common stock, (ii) each of our directors and the executive officers and (iii) our directors and executive officers as a group. Each person named in the table has sole voting and investment power with respect to all of the shares of our common stock shown as beneficially owned by such person, except as otherwise set forth in the notes to the table. The extent to which a person will hold shares of common stock as opposed to operating partnership units is set forth in the footnotes below. Unless otherwise indicated, the address of each named person is c/o CyrusOne Inc., 1649 West Frankford Road, Carrollton, TX 75007.

Name of Beneficial Owner	Number of Shares and Operating Partnership Units Beneficially Owned	Percent of Common Shares	Percent of Common Shares and Operating Partnership Units [(1)]
Beneficial owners of 5% or more of our common stock:			
Cincinnati Bell Inc. [(2)(4)]	44,476,835	8.6%	69%
Directors, proposed directors and executive officers:			
Gary J. Wojtaszek	237,938	1.1%	*
Kevin L. Timmons	105,592	*	*
Michael L. Duckett	98,669	*	*
Kimberly H. Sheehy	97,991	*	*
Venkatesh S. Durvasula	94,605	*	*
David H. Ferdman	90,480	*	*
Thomas W. Bosse [(3)]	70,790	*	*
John F. Cassidy	60,789	*	*
Roger T. Staubach	20,789	*	*
William E. Sullivan	11,789	*	*
Melissa E. Hathaway	11,789	*	*
T. Tod Nielsen	10,789	*	*
Alex Shumate	10,789	*	*
Patricia M. McBratney	8,395	*	*
All directors and executive officers as a group (14 persons)	931,194	4.3%	1.4%

(1) Assumes a total of 64,470,748 shares of common stock and operating partnership units are outstanding, comprised of 21,883,913 shares of our common stock and 42,586,835 operating partnership units which may be exchanged for cash or shares of common stock under certain circumstances.

(2) Amounts shown reflect 1,890,000 shares of our common stock and 42,586,835 operating partnership units that are owned by CBI effective upon the completion of the initial public offering on January 24, 2013.

(3) Mr. Bosse joined CyrusOne on March 18, 2013 as our Vice President, General Counsel and Secretary. These shares are held by Mr. Bosse as of March 18, 2013.

(4) CBI s address is 221 East Fourth Street, Cincinnati, Ohio 45202.

* Less than 1%.

Securities Authorized for Issuance and Equity Compensation Plan

As of December 31, 2012, CyrusOne had no securities authorized for issuance under equity compensation plans. In conjunction with the completion of the initial public offering, 4 million shares were authorized for issuance under our equity compensation plans.

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ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE
Contribution Agreements

On November 20, 2012, certain subsidiaries of CBI (the Contributors) entered into a contribution agreement with our operating partnership pursuant to which such Contributor contributed direct or indirect interests in a portfolio of properties and certain other assets related to such properties to the operating partnership in exchange for operating partnership units and assumption of liabilities.

The contribution agreements provided that we assumed or succeeded to all of the Contributor s rights, liabilities and obligations with respect to the property entity, properties interests and assets contributed. The contribution agreements each contained qualified representations and warranties by the relevant Contributor to our operating partnership with respect to the property entity, property interests and assets contributed to us by such Contributor, such as title to any owned property, compliance with laws (including environmental laws), enforceability of certain material contracts and leases and other limited matters. In the event of a breach of such representations and warranties, the Contributors will indemnify our operating partnership for any resulting losses.

No Contributor will be liable unless and until the amount of losses exceeds 1% of the aggregate value of the operating partnership units received by the Contributor that contributed the property to which such losses relate. The liability of each Contributor is limited to 10% of the aggregate value of the operating partnership units received by such Contributor in connection with the contribution transactions, and, with respect to any liability that arises from a specific contributed property, such liability is limited to 10% of the aggregate value of the operating partnership units issued in respect of such contributed property.

The foregoing limitations on the Contributors indemnification obligations will not apply to any breach of representations and warranties with respect to title to any specific owned property or material leased property contributed to us until such time as we obtain title insurance with respect to such property. We are currently assessing our title insurance requirements. We expect to seek either endorsements to provide us with the benefits of existing title insurance policies of CBI and its subsidiaries with respect to the contributed owned properties and material leased properties or new title insurance policies for such properties. However, we do not currently have such policies in place.

All representations and warranties made by the Contributors will survive for a period of one year after the closing of the contribution transactions. In the event we do not become aware of a breach until after such period, or if we otherwise fail to assert a claim prior to the end of such period, we will have no further recourse against the Contributors.

Aggregate Consideration to CBI

As a result of the formation transactions, related financing transactions and our initial public offering, CBI received an aggregate consideration of approximately $845 million. Approximately $809 million of this consideration is comprised of 42,586,835 operating partnership units, as adjusted to reflect an approximately 2.8-to-1 unit reverse split immediately prior to the initial public offering, issued pursuant to the contribution agreements described above. The remaining approximately $36 million of the aggregate consideration received by CBI is comprised of 374,279 shares of our common stock issued to CBI in exchange for the satisfaction and discharge of intercompany indebtedness related to CBI s incurrence of certain offering expenses on our behalf and 1,515,721 operating partnership units exchanged for an equivalent number of shares of our common stock. Upon the closing of the formation transactions, CBI also received approximately $480 million in cash representing the repayment of intercompany indebtedness.

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 to CBI to jeopardize our REIT status.

Partnership Agreement

Concurrently with our initial public offering, we amended and restated, the agreement of limited partnership of our operating partnership to reflect the 2.8-to-1 unit reverse split conducted in order to establish a value for each operating partnership unit that is equivalent with the value of each share of our common stock issued in our initial public offering, as well as to grant the Contributors certain redemption rights and to grant CBI certain board nomination rights, approval rights over certain change of control transactions and other rights, and to provide for additional voting rights of limited partners of our operating partnership. Pursuant to the amended and restated partnership agreement, persons holding operating partnership units as a result of the formation transactions will have rights beginning 12 months after our initial public offering to cause our operating partnership to redeem each of their operating partnership units for cash equal to the then-current market value of one share of common stock, or, at our election, to exchange their operating partnership units for shares of our common stock on a one-for-one basis.

Employment Agreements and Arrangements

We have entered into employment agreements or arrangements with certain of our executive officers. See Executive Compensation Employment Agreements and Arrangements.

Registration Rights

CBI received registration rights in connection with our initial public offering to cause us, beginning 14 months after the completion of our initial public offering, to register shares of our common stock acquired by CBI in connection with the formation transactions or its exercise of redemption/exchange rights under the partnership agreement of our operating partnership.

Indemnification of Officers and Directors

We expect to enter into an indemnification agreement with each of our directors and executive officers. The indemnification agreements will include the following provisions:

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.

Transition Services Agreements

Effective January 1, 2012, we entered into a transition services agreement with CBTS, pursuant to which each party agreed to provide certain services to the other party. Services provided by CBTS to the Predecessor included network support, service calls, monitoring and management, storage and backup and IT systems support. The 2012 annual fee paid for these services is approximately $1.5 million. Transition services provided by the Predecessor to CBTS included network interface charges for a fiber network. We earned 2012 annual revenue of approximately $0.5 million for these services with no such revenues in prior years.

In November 2012, we replaced this transition services agreement with a new transition services arrangement with CBTS pursuant to which each party will provide certain services to the other party. Services provided by CBTS to us include migration and support services for hardware and applications used for local telephony and IT services by our employees, as well as back office billing transition support for customers that have not yet been transitioned off of the CBTS billing platform. The annual fee to be paid by us for these services is approximately $0.3 million. Services provided by us to CBTS consist of network interface charges. The annual fee to be paid by CBTS for these services is approximately $0.5 million, which may decline in future periods as CBTS migrates its network interfaces on to an independently architected and managed CBTS network. These services will be provided on a month-to-month basis, until such time as the services in question have been fully transitioned, which we expect may be as long as 24 months for certain services.

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

Other Services

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

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

Prior to the completion of the formation transactions on November 20, 2012, the Predecessor participated in CBI s centralized cash management program. On a periodic basis, all of our excess cash was transferred to CBI s corporate cash accounts. Likewise, substantially all funds to finance our operations, including acquisitions and development costs, were funded by CBI. As of December 31, 2011, advances and borrowings under this program

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were $9.6 million and $212.1 million, respectively. These advances and borrowings were governed by an intercompany cash management agreement. Effective November 19, 2010, all advances and borrowings were subject to interest at the average 30-day Eurodollar rate for the calendar month plus the applicable credit spread for Eurodollar rate borrowings charged for CBI s revolving line of credit. Prior to such date, the interest rate applied to such advances and borrowings was CBI s short-term borrowing rate. The average rate earned or charged was 5.0% in both 2012 and 2011 and 4.2% in 2010. Net interest expense recognized on related party notes was $7.0 million in 2012, and $1.1 million in both 2011 and 2010.

Marketing Agreement

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

Employment Relationships

Our Chairman is the former President and Chief Executive Officer and the current Vice Chairman of the Board of Directors of CBI. Our Chief Executive Officer was a director of CBI prior to his resignation upon the completion of our initial public offering.

Other Benefits to Related Parties and Related Party Transactions

Some of our directors and executive officers own a substantial amount of CBI common stock, options and other instruments, the value of which is related to the value of common stock of CBI. The direct and indirect interests of our directors and executive officers in common stock of CBI, and us, could create, or appear to create, conflicts of interest with respect to decisions involving both CBI and us that could have different implications for CBI than they do for us.

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

We have also entered into services agreements with CBT and CBTS. Under the CBTS services agreement, CBTS has agreed to provide us with certain managed storage and backup services. These services will be provided on a month-to-month basis, and charges will be based on the variable amount of gigabytes managed by CBTS each month. CBTS will charge us a rate of $0.56 per gigabyte and the annual fee to be paid by us for these services is approximately $0.2 million. We expect that services under this agreement may extend for as long as 36 months.

Under the CBT services agreement, CBT provides us with connectivity services for a period of five years related to several of our data center facilities. These services are related to the use of fiber and circuit assets that are currently a part of the CBI network. The annual fee for these services will be $0.9 million, subject to reduction if we terminate certain services.

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

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

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

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

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

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

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

Director Independence

In accordance with corporate governance listing standards of the NASDAQ Global Select Market and our corporate governance guidelines, the board affirmatively evaluates and determines the independence of each director and each nominee for election. Based on an analysis of information supplied by the directors, the board evaluates whether any director has any material relationship with CyrusOne, either directly or as a partner, shareholder or officer of an organization that has a relationship with CyrusOne that might cause a conflict of interest in the performance of a director s duties.

Based on these standards, the board determined that each of the following persons who is serving as a non-employee director and has no relationship with CyrusOne, except as a director and shareholder, is independent:

Melissa E. Hathaway

William E. Sullivan

Roger T. Staubach

T. Tod Nielsen

Alex Shumate

The board determined that Gary J. Wojtaszek is not independent because he is the President and Chief Executive Officer of the Company, and John F. Cassidy is not independent because he is the former President and Chief Executive Officer of Cincinnati Bell Inc. In addition, the board determined that David H. Ferdman is not independent as he founded Cyrus Networks, and has served as President and Chief Executive Officer of the Company.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

There were no accounting fees paid by CyrusOne prior to the 2012 commencement of the initial public offering process. The following fees, also paid by CBI initially, were related to our initial public offering and were paid in 2012.

	2012	2011
Audit fees	$ 783,688	$
Audit-related fees	1,025,000	
Tax-related fees	25,000	
Other fees		

	$ 1,833,688	$

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Audit fees

The audit fees for the year ended December 31, 2012 were for services rendered in connection with the initial public offering, audit of CyrusOne s 2012 combined financial statements and review of quarterly financial statements included in the Company s reports filed with the SEC on Form S-11. There were no such fees incurred or paid in 2011.

Audit related fees

The audit related fees for the year ended December 31, 2012 were for professional services rendered for CyrusOne s debt and common stock offerings and various accounting consultations. There were no such fees incurred or paid in 2011.

Tax fees

Tax fees for the year ended December 31, 2012 were for the preparation of various tax filings and tax consultations. There were no such fees incurred or paid in 2011.

All other fees

None.

Engagement of the Independent Registered Public Accounting Firm and Pre-Approval Policy

In accordance with its charter, the Audit and Finance Committee has the sole authority and responsibility to select, evaluate and, if necessary, replace the Independent Registered Public Accounting Firm. The Audit and Finance Committee has the sole authority to approve all audit engagement fees and terms. In addition, the Audit and Finance Committee, or the Chairperson of the Audit and Finance Committee between regularly scheduled meetings, must pre-approve all services provided to CyrusOne by CyrusOne s Independent Registered Public Accounting Firm.

Pursuant to Section 202 of the Sarbanes-Oxley Act of 2002, the Audit and Finance Committee of the Parent pre-approved every engagement of Deloitte & Touche LLP to perform audit or non-audit services on behalf of CyrusOne or any of its subsidiaries during the year ended December 31, 2012.

Effective with our initial public offering, CyrusOne s audit committee will pre-approve all services provided by our Independent Registered Public Accounting Firm going forward.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) **Combined Financial Statements and Schedules.** The following combined financial statements and schedules are included in this report:

(1) FINANCIAL STATEMENTS

The response to this portion of Item 15 is submitted under Item 8 of this Annual Report on Form 10-K.

(2) FINANCIAL STATEMENT SCHEDULES

Schedule II Valuation and Qualifying Accounts

Schedule III Consolidated Real Estate and Accumulated Depreciation. The response to this portion of Item 15 is submitted under Item 8 of this Annual Report on Form 10-K.

All other schedules for which provision is made in the applicable accounting regulation of the SEC are not required under the related instructions or are inapplicable and therefore have been omitted.

(3) EXHIBITS

Any shareholder who wants a copy of the following Exhibits may obtain one from us upon request at a charge that reflects the reproduction cost of such Exhibits. Requests should be made to the Secretary of CyrusOne Inc., 1649 West Frankford Rd., Carrollton, TX 75007

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Schedule II.

Valuation and Qualifying Accounts

(dollars in millions)	Beginning of Period	Charge (Benefit) to Expenses	To (from) Other Accounts	Deductions/ (Additions)	End of Period
Allowance for Doubtful Accounts					
2012	$	$ 0.1	$	$ (0.2)	$ 0.3
2011	$ 0.2	$ 0.2	$	$ 0.4	$
2010	$ 0.2	$	$	$	$ 0.2
Deferred Tax					
Valuation Allowance					
2012	$ 0.3	$ 1.6	$	$	$ 1.9
2011	$ 0.1	$ 0.2	$	$	$ 0.3
2010	$ 0.1	$	$	$	$ 0.1

Prior to October 1, 2012, CyrusOne sold most of its receivables to an affiliated entity at a discount of 2.5% of the face value. Proceeds from the sale of these assets were settled through CBI s centralized cash management system. Effective October 1, 2012, we terminated its participation in this program.

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CyrusOne Inc.
Schedule III

Real Estate Properties and Accumulated Depreciation
As of December 31, 2012

(dollars in millions)

	Initial Costs			Cost Capitalized Subsequent to Acquisition			Gross Carrying Amount				
Description	Land	Building and Improvements	Equipment	Land	Building and Improvements	Equipment	Land	Building and Improvements	Equipment	Accumulated Depreciation and Amortization	Acquisition
West Seventh St., Cincinnati, OH (7th Street)	$ 0.9	$ 42.2	$	$	$ 66.5	$ 0.8	$ 0.9	$ 108.7	$ 0.8	$ 55.9	1999
Parkway Dr., Mason, OH (Mason)					20.2	0.4		20.2	0.4	8.6	2004
Industrial Rd., Florence, KY (Florence)		7.7			39.1	0.5		46.8	0.5	20.1	2005
Goldcoast Dr., Cincinnati, OH (Goldcoast)	0.6				6.7		0.6	6.7		1.5	2007
Knightsbridge Dr., Hamilton, OH (Hamilton)		9.5			40.4	2.1		49.9	2.1	15.3	2007
E. Monroe St., South Bend, IN (Monroe St.) (a)					2.9			3.2		1.6	2007
Bridge St., Grand Rapids, MI (b)											2007
Springer St., Lombard, IL (Lombard) (c)		3.2			13.7			2.6		0.2	2008
Crescent Circle, South Bend, IN (Blackthorn) (d)		1.1			1.7	0.1		3.3	0.1	0.8	2008
Kingsview Dr., Lebanon, OH (Lebanon)	4.0	12.3			58.7	1.1	4.0	71.0	1.1	12.8	2008
McAuley Place, Blue Ash, OH (Blue Ash) (e)		2.6			0.3			0.6			2009
Westway Park Blvd., Houston, TX (Houston West)	1.4	21.4	0.1	2.0	66.4	11.9	3.3	87.8	12.0	13.7	2010
Southwest Fwy., Houston, TX (Galleria)		56.0	2.0		10.0	4.6		66.0	6.6	14.8	2010
E. Ben White Blvd., Austin, TX (Austin 1)		11.9	0.2		10.7	0.6		22.6	0.8	4.3	2010
S. State Highway 121 Business Lewisville, TX (Lewisville)		46.2	2.2		29.8	7.4		76.0	9.6	18.5	2010
Marsh Lane Carrollton, TX					0.1	0.2		0.1	0.2	0.1	2010
Midway Rd., Carrollton, TX		1.8			0.2	0.3		2.0	0.3	1.8	2010
Frankford, Carrollton, TX	16.1				34.6	5.0	16.1	34.6	5.0	1.1	2012
Bryan St., Dallas, TX		0.1						0.1		0.1	2010
North Freeway, Houston, TX (Greenspoint)					1.3	0.4		1.3	0.4	0.6	2010
South Ellis Street Chandler, AZ (Phoenix)	15.0				38.7	6.8	15.0	38.7	6.8	0.3	2011
Westover Hills Blvd, San Antonio, TX (San Antonio)	4.6	3.0			27.8	4.7	4.6	30.8	4.7	1.0	2011
Metropolis Dr., Austin, TX (Austin 2)					22.7	0.6		22.7	0.6	1.8	2011
Kestral Way (London)		16.5			0.6	0.3		17.1	0.3	0.6	2011
Jurong East (Singapore)		9.0			0.7	0.1		9.7	0.1	1.2	2011
	$ 42.6	$ 244.5	$ 4.5	$ 2.0	$ 493.8	$ 47.9	$ 44.5	$ 722.5	$ 52.4	$ 176.7	

(a) The Gross Carrying Amount for this respective asset, reflects an impairment of $0.7 million recorded in 2012.
(b) This lease expired in January 2012.
(c) The Gross Carrying Amount for this respective asset, reflects an impairment of $13.3 million recorded in 2012.
(d) The Gross Carrying Amount for this respective asset, reflects an impairment of $0.7 million recorded in 2012.
(e) The Gross Carrying Amount for this respective asset, reflects an impairment of $2.4 million recorded in 2012.

The aggregate cost of the total properties for federal income tax purposes was $1,147.8 million at December 31, 2012.

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Historical Cost and Accumulated Depreciation and Amortization

The following table reconciles the historical cost and accumulated depreciation for the years ended December 31, 2012, 2011 and 2010.

	Years Ended December 31,		
(dollars in millions)	2012	2011	2010
Property			
Balance beginning of period	$ 660.2	$ 498.4	$ 317.6
Disposals	(1.2)	(1.2)	(0.5)
Impairments	(17.1)		
Additions (acquisitions and improvements)	241.7	163.0	181.3
Balance, end of period	$ 883.6	$ 660.2	$ 498.4
Accumulated Depreciation			
Balance beginning of period	$ 131.2	$ 94.7	$ 69.0
Disposals	(1.2)	(1.2)	(0.1)
Impairments	(5.3)		
Additions (depreciation and amortization expense)	52.0	37.7	25.8
Balance, end of period	$ 176.7	$ 131.2	$ 94.7

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The exhibits required by Item 601 of Regulation S-K are listed below:

Exhibit No.	Exhibit Description
3.1	Articles of Amendment and Restatement of CyrusOne Inc. (Incorporated by reference to Exhibit 3.1 of Form 8-K, filed by the Registrant on January 25, 2013 (Registration No. 001-35789).)
3.2	Amended and Restated Bylaws of CyrusOne Inc. (Incorporated by reference to Exhibit 3.2 of Form 8-K, filed by the Registrant on January 25, 2013 (Registration No. 001-35789).)
3.3	Amended and Restated Agreement of Limited Partnership of CyrusOne LP. (Incorporated by reference to Exhibit 10.1 of Form 8-K, filed by the Registrant on January 25, 2013 (Registration No. 001-35789).)
4.1+	Registration Rights Agreement dated November 20, 2012, between CyrusOne LP, CyrusOne Finance Corp., the guarantors party thereto and Barclays Capital Inc., as representatives of the initial purchasers.
4.2	Registration Rights Agreement, dated January 24, 2013, by and among CyrusOne Inc., CyrusOne GP, CyrusOne LP and Data Center Investments Holdco LLC and Data Centers South Holdings LLC. (Incorporated by reference to Exhibit 1.2 of Form 8-K, filed by the Registrant on January 25, 2013 (Registration No. 001-35789).)
4.3	Indenture, dated as of November 20, 2012, by and among CyrusOne LP and CyrusOne Finance Corp., guarantors party thereto and Wells Fargo Bank, N.A., as trustee, relating to CyrusOne Inc. s 6.375% Senior Notes due 2022. (Incorporated by reference to Exhibit 4.1 of Amendment No. 4 to the Registrant s Registration Statement on Form S-11/A, filed by the Registrant on November 26, 2012 (Registration No. 333-183132).)
4.4	Form of Certificate for Common Stock of CyrusOne Inc. (Incorporated by reference to Exhibit 4.1 of Amendment No. 5 to the Registrant s Registration Statement on Form S-11/A, filed by the Registrant on December 12, 2012 (Registration No. 333-183132).)
10.1+	Contribution Agreement dated as of November 20, 2012, by and among CyrusOne LP, a Maryland limited partnership and Data Centers South, Inc., a Delaware Corporation
10.2+	Contribution Agreement dated as of November 20, 2012, by and among CyrusOne LP, a Maryland limited partnership and Data Center Investments Inc., a Delaware corporation.
10.3	Credit Agreement dated as of November 20, 2012, among CyrusOne Inc., a Maryland corporation, CyrusOne LP, a Maryland limited partnership, the Lenders party thereto and Deutsche Bank Trust Company Americas. (Incorporated by reference to Exhibit 10.6 of Amendment No. 4 to the Registrant s Registration Statement on Form S-11/A, filed by the Registrant on November 26, 2012 (Registration No. 333-183132).)
10.4	Form of Indemnification Agreement between CyrusOne Inc. and its directors and officers. (Incorporated by reference to Exhibit 10.5 of Amendment No. 5 to the Registrant s Registration Statement on Form S-11/A, filed by the Registrant on December 12, 2012 (Registration No. 333-183132).)
10.5	CyrusOne 2012 Long Term Incentive Plan. (Incorporated by reference to Exhibit 10.7 of Amendment No. 3 to the Registrant s Registration Statement on Form S-11/A, filed by the Registrant on November 16, 2012 (Registration No. 333-183132).)
10.6	Form of Director Restricted Stock Award under the provisions of the CyrusOne 2012 Long Term Incentive Plan. (Incorporated by reference to Exhibit 10.1 of Form S-8, filed by the Registrant on January 24, 2013 (Registration No. 333-186186).)
10.7	Form of Executive Restricted Stock Award under the provisions of the CyrusOne 2012 Long Term Incentive Plan. (Incorporated by reference to Exhibit 10.2 of Form S-8, filed by the Registrant on January 24, 2013 (Registration No. 333-186186).)
10.8	Form of Employee Restricted Stock Award under the provisions of the CyrusOne 2012 Long Term Incentive Plan. (Incorporated by reference to Exhibit 10.3 of Form S-8, filed by the Registrant on January 24, 2013 (Registration No. 333-186186).)

Exhibit No.	Exhibit Description
10.9	CyrusOne 2013 Short Term Incentive Plan. (Incorporated by reference to Exhibit 10.8 of Amendment No. 3 to the Registrant s Registration Statement on Form S-11/A, filed by the Registrant on November 16, 2012 (Registration No. 333-183132).)
10.10	Resignation Letter, dated as of January 23, 2013, by and between Cincinnati Bell Inc. and Gary J. Wojtaszek. (Incorporated by reference to Exhibit 10.1 of Form 8-K, filed by the Registrant on January 29, 2013 (Registration No. 001-35789).)
10.11	Resignation Letter, dated as of January 23, 2013, by and between Cincinnati Bell Inc. and Kimberly H. Sheehy. (Incorporated by reference to Exhibit 10.2 of Form 8-K, filed by the Registrant on January 29, 2013 (Registration No. 001-35789).)
10.12	Resignation Letter, dated as of January 23, 2013, by and between Cincinnati Bell Inc. and Michael L. Duckett. (Incorporated by reference to Exhibit 10.3 of Form 8-K, filed by the Registrant on January 29, 2013 (Registration No. 001-35789).)
10.13	Resignation Letter, dated as of January 23, 2013, by and between Cincinnati Bell Inc. and Kevin L. Timmons. (Incorporated by reference to Exhibit 10.4 of Form 8-K, filed by the Registrant on January 29, 2013 (Registration No. 001-35789).)
10.14	Employment Agreement, dated as of January 24, 2013, by and between CyrusOne LLC and Gary J. Wojtaszek. (Incorporated by reference to Exhibit 10.5 of Form 8-K, filed by the Registrant on January 29, 2013 (Registration No. 001-35789).)
10.15	Employment Agreement, dated as of January 24, 2013, by and between CyrusOne LLC and Kimberly H. Sheehy. (Incorporated by reference to Exhibit 10.6 of Form 8-K, filed by the Registrant on January 29, 2013 (Registration No. 001-35789).)
10.16	Employment Agreement, dated as of January 24, 2013, by and between CyrusOne LLC and Michael L. Duckett. (Incorporated by reference to Exhibit 10.7 of Form 8-K, filed by the Registrant on January 29, 2013 (Registration No. 001-35789).)
10.17	Employment Agreement, dated as of January 24, 2013, by and between CyrusOne LLC and Kevin L. Timmons. (Incorporated by reference to Exhibit 10.8 of Form 8-K, filed by the Registrant on January 29, 2013 (Registration No. 001-35789).)
10.18+	Employment Agreement, dated as of January 24, 2013, by and between CyrusOne LLC and Venkatesh S. Durvasula.
10.19+	Employment Agreement dated as of March 18, 2013, by and between CyrusOne LLC and Thomas W. Bosse.
14+	Code of Ethics for Senior Financial Officers as adopted Pursuant to Section 406
21.1+	Subsidiaries of the Registrant
23.1+	Consent of Deloitte & Touche LLP.
24+	Powers of Attorney
31.1+	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.1+	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.2+	Certification pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
+	Filed herewith.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized, on the 28th day of March, 2013.

CyrusOne Inc.

By: /s/ Gary J. Wojtaszek
Gary J. Wojtaszek
President, Chief Executive Officer, and Director

By: /s/ Kimberly H. Sheehy
Kimberly H. Sheehy
Chief Financial Officer and Administrative Officer

By: /s/ Patricia M. McBratney
Patricia M. McBratney
Vice President and Controller (Chief Accounting Officer)

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ Gary J. Wojtaszek Gary J. Wojtaszek	President, Chief Executive Officer and Director	March 28, 2013
John F. Cassidy* John F. Cassidy	Chairman of the Board of Directors	March 28, 2013
William E. Sullivan* William E. Sullivan*	Director	March 28, 2013
Roger T. Staubach* Roger T. Staubach	Director	March 28, 2013
T. Tod Nielsen* T. Tod Nielsen	Director	March 28, 2013
Alex Shumate* Alex Shumate	Director	March 28, 2013
Melissa E. Hathaway* Melissa E. Hathaway	Director	March 28, 2013
David H. Ferdman* David H. Ferdman	Director	March 28, 2013

*By: /s/ Gary J. Wojtaszek
Gary J. Wojtaszek

as attorney-in-fact and on his behalf

as President, Chief Executive Officer, and Director

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