

CoreSite Realty Corp  
Form 10-Q  
October 26, 2018  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from                      to                      .

Commission file number: 001-34877

CoreSite Realty Corporation

(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction  
of incorporation or organization)

27-1925611  
(I.R.S. Employer  
Identification No.)

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1001 17th Street, Suite 500  
Denver, CO 80202  
(Address of principal executive offices) (Zip Code)

(866) 777-2673

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No .

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

|                         |                           |
|-------------------------|---------------------------|
| Large accelerated filer | Accelerated filer         |
| Non-accelerated filer   | Smaller reporting company |
|                         | Emerging growth company   |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of common stock outstanding at October 24, 2018, was 36,698,529.



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CORESITE REALTY CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED September 30, 2018

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## PART I — FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## CORESITE REALTY CORPORATION

## CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands except share and per share data)

|   | September<br>30,<br>2018 | December<br>31,<br>2017 |
|---|--------------------------|-------------------------|
| <b>ASSETS</b>   |                          |                         |
| Investments in real estate:   |                          |                         |
| Land  | \$ 97,636                | \$ 97,258               |
| Buildings and improvements  | 1,701,832                | 1,561,056               |
|   | 1,799,468                | 1,658,314               |
| Less: Accumulated depreciation and amortization   | (560,650)                | (473,141)               |
| Net investment in operating properties  | 1,238,818                | 1,185,173               |
| Construction in progress  | 199,776                  | 162,903                 |
| Net investments in real estate  | 1,438,594                | 1,348,076               |
| Operating lease right-of-use assets   | 194,732                  | 92,984                  |
| Cash and cash equivalents   | 5,306                    | 5,247                   |
| Accounts and other receivables, net of allowance for doubtful accounts of \$401 and \$1,094 as of September 30, 2018, and December 31, 2017, respectively   | 24,458                   | 28,875                  |
| Lease intangibles, net of accumulated amortization of \$8,762 and \$8,585 as of September 30, 2018, and December 31, 2017, respectively                     | 7,578                    | 6,314                   |
| Goodwill  | 40,646                   | 40,646                  |
| Other assets, net   | 106,906                  | 103,501                 |
| Total assets  | \$ 1,818,220             | \$ 1,625,643            |
| <b>LIABILITIES AND EQUITY</b>   |                          |                         |
| Liabilities:  |                          |                         |
| Debt, net of unamortized deferred financing costs of \$6,021 and \$4,930 as of September 30, 2018, and December 31, 2017, respectively                      | \$ 1,073,479             | \$ 939,570              |
| Operating lease liabilities   | 204,424                  | 102,912                 |
| Accounts payable and accrued expenses   | 88,232                   | 77,170                  |
| Accrued dividends and distributions   | 51,840                   | 48,976                  |
| Acquired below-market lease contracts, net of accumulated amortization of \$6,159 and \$5,608 as of September 30, 2018, and December 31, 2017, respectively | 2,954                    | 3,504                   |
| Unearned revenue, prepaid rent and other liabilities  | 33,666                   | 34,867                  |

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|  |              |              |
|--|--------------|--------------|
| Total liabilities  | 1,454,595    | 1,206,999    |
| Stockholders' equity:  |              |              |
| Common Stock, par value \$0.01, 100,000,000 shares authorized and 36,698,420 and 34,240,815 shares issued and outstanding at September 30, 2018, and December 31, 2017, respectively | 363          | 338          |
| Additional paid-in capital   | 487,848      | 457,495      |
| Accumulated other comprehensive income   | 1,758        | 753          |
| Distributions in excess of net income  | (226,184)    | (177,566)    |
| Total stockholders' equity   | 263,785      | 281,020      |
| Noncontrolling interests   | 99,840       | 137,624      |
| Total equity   | 363,625      | 418,644      |
| Total liabilities and equity   | \$ 1,818,220 | \$ 1,625,643 |

See accompanying notes to condensed consolidated financial statements.

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## CORESITE REALTY CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited and in thousands except share and per share data)

|  | Three Months Ended September |            | Nine Months Ended September |            |
|--|------------------------------|------------|-----------------------------|------------|
|  | 30,                          |            | 30,                         |            |
|  | 2018                         | 2017       | 2018                        | 2017       |
| Operating revenues:                                    |                              |            |                             |            |
| Data center revenue:                                   |                              |            |                             |            |
| Rental, power, and related revenue                     | \$ 118,590                   | \$ 103,952 | \$ 344,745                  | \$ 300,932 |
| Interconnection revenue                                | 17,701                       | 16,201     | 51,683                      | 46,038     |
| Office, light-industrial and other revenue             | 2,889                        | 2,915      | 8,818                       | 8,905      |
| Total operating revenues                               | 139,180                      | 123,068    | 405,246                     | 355,875    |
| Operating expenses:                                    |                              |            |                             |            |
| Property operating and maintenance                     | 41,161                       | 37,091     | 112,870                     | 98,098     |
| Real estate taxes and insurance                        | 4,699                        | 2,622      | 14,329                      | 10,950     |
| Depreciation and amortization                          | 36,264                       | 32,077     | 105,598                     | 96,622     |
| Sales and marketing                                    | 5,180                        | 4,643      | 15,629                      | 13,560     |
| General and administrative                             | 10,074                       | 9,759      | 29,556                      | 27,391     |
| Rent   | 7,329                        | 6,077      | 20,276                      | 17,970     |
| Transaction costs                                      | —                            | —          | 75                          | 139        |
| Total operating expenses                               | 104,707                      | 92,269     | 298,333                     | 264,730    |
| Operating income                                       | 34,473                       | 30,799     | 106,913                     | 91,145     |
| Interest expense                                       | (9,433)                      | (6,447)    | (26,078)                    | (17,512)   |
| Income before income taxes                             | 25,040                       | 24,352     | 80,835                      | 73,633     |
| Income tax (expense) benefit                           | (20)                         | (64)       | 30                          | (150)      |
| Net income   | \$ 25,020                    | \$ 24,288  | \$ 80,865                   | \$ 73,483  |
| Net income attributable to noncontrolling interests    | 6,420                        | 6,446      | 22,574                      | 19,537     |
| Net income attributable to CoreSite Realty Corporation | \$ 18,600                    | \$ 17,842  | \$ 58,291                   | \$ 53,946  |
| Preferred stock dividends                              | —                            | (2,084)    | —                           | (6,253)    |
| Net income attributable to common shares               | \$ 18,600                    | \$ 15,758  | \$ 58,291                   | \$ 47,693  |
| Net income per share attributable to common shares:    |                              |            |                             |            |
| Basic  | \$ 0.52                      | \$ 0.47    | \$ 1.69                     | \$ 1.41    |
| Diluted  | \$ 0.52                      | \$ 0.46    | \$ 1.68                     | \$ 1.40    |
| Weighted average common shares outstanding             |                              |            |                             |            |
| Basic  | 35,512,091                   | 33,878,881 | 34,504,790                  | 33,758,971 |
| Diluted  | 35,721,478                   | 34,114,169 | 34,693,835                  | 34,033,842 |

See accompanying notes to condensed consolidated financial statements.





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## CORESITE REALTY CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

|   | Three Months Ended |           | Nine Months Ended |           |
|---|--------------------|-----------|-------------------|-----------|
|   | September 30,      |           | September 30,     |           |
|   | 2018               | 2017      | 2018              | 2017      |
| Net income  | \$ 25,020          | \$ 24,288 | \$ 80,865         | \$ 73,483 |
| Other comprehensive income (loss):  |                    |           |                   |           |
| Unrealized gain on derivative contracts                                   | 523                | 41        | 1,356             | 31        |
| Reclassification of other comprehensive income (loss) to interest expense | (69)               | 87        | (145)             | 554       |
| Comprehensive income  | 25,474             | 24,416    | 82,076            | 74,068    |
| Comprehensive income attributable to noncontrolling interests             | 6,534              | 6,483     | 22,907            | 19,707    |
| Comprehensive income attributable to CoreSite Realty Corporation          | \$ 18,940          | \$ 17,933 | \$ 59,169         | \$ 54,361 |

See accompanying notes to condensed consolidated financial statements.

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## CORESITE REALTY CORPORATION

## CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(unaudited and in thousands except share data)

|   | Common Shares |        | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Distributions<br>in Excess of<br>Net Income | Total<br>Stockholders'<br>Equity | Noncontrolling<br>Interests | Total<br>Equity |
|---|---------------|--------|----------------------------------|---|---|----------------------------------|-----------------------------|-----------------|
|   | Number        | Amount |                                  |   |   |                                  |                             |                 |
| Balance at<br>January 1, 2018                         | 34,240,815    | \$ 338 | \$ 457,495                       | \$ 753  | \$ (177,566)                                | \$ 281,020                       | \$ 137,624                  | \$ 418,644      |
| Redemption of<br>noncontrolling<br>interests          | 2,257,056     | 23     | 20,817                           | 127   | —   | 20,967                           | (20,967)                    | —               |
| Issuance of<br>stock awards,<br>net of<br>forfeitures | 187,668       | —      | —                                | —   | —   | —                                | —                           | —               |
| Exercise of<br>stock options                          | 12,881        | —      | 219                              | —   | —   | 219                              | —                           | 219             |
| Share-based<br>compensation                           | —             | 2      | 9,317                            | —   | —   | 9,319                            | —                           | 9,319           |
| Dividends and<br>distributions                        | —             | —      | —                                | —   | (106,909)                                   | (106,909)                        | (39,724)                    | (146,633)       |
| Net income  | —             | —      | —                                | —   | 58,291                                      | 58,291                           | 22,574                      | 80,865          |
| Other<br>comprehensive<br>income                      | —             | —      | —                                | 878   | —   | 878                              | 333                         | 1,211           |
| Balance at<br>September 30,<br>2018                   | 36,698,420    | \$ 363 | \$ 487,848                       | \$ 1,758  | \$ (226,184)                                | \$ 263,785                       | \$ 99,840                   | \$ 363,625      |

See accompanying notes to condensed consolidated financial statements.

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## CORESITE REALTY CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

|   | Nine Months Ended<br>September 30, |           |
|---|------------------------------------|-----------|
|   | 2018                               | 2017      |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                    |           |
| Net income  | \$ 80,865                          | \$ 73,483 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                    |           |
| Depreciation and amortization   | 105,598                            | 96,622    |
| Amortization of above/below market leases   | (494)                              | (428)     |
| Amortization of deferred financing costs  | 1,756                              | 1,231     |
| Share-based compensation  | 8,864                              | 6,545     |
| Bad debt expense  | (300)                              | 1,003     |
| Changes in operating assets and liabilities:                                      |                                    |           |
| Accounts receivable   | 5,001                              | (3,867)   |
| Deferred rent receivable  | (2,930)                            | (3,161)   |
| Deferred leasing costs  | (9,140)                            | (9,956)   |
| Other assets  | (5,342)                            | (10,385)  |
| Accounts payable and accrued expenses   | 6,274                              | 3,758     |
| Unearned revenue, prepaid rent and other liabilities                              | (1,201)                            | (5,841)   |
| Operating leases  | (215)                              | 1,980     |
| Net cash provided by operating activities   | 188,736                            | 150,984   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                    |           |
| Tenant improvements   | (4,191)                            | (6,281)   |
| Real estate improvements  | (160,269)                          | (108,548) |
| Acquisition of SV8 land   | —                                  | (12,158)  |
| Acquisition of CH2 land   | (4,383)                            | —         |
| Acquisition of U.S. Colo, net of cash received                                    | (6,298)                            | —         |
| Net cash used in investing activities   | (175,141)                          | (126,987) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |                                    |           |
| Proceeds from exercise of stock options   | 219                                | 4,820     |
| Proceeds from revolving credit facility   | 184,036                            | 107,000   |
| Payments on revolving credit facility   | (199,036)                          | (282,000) |
| Proceeds from unsecured debt  | 150,000                            | 275,000   |
| Payments of loan fees and costs   | (4,986)                            | (2,410)   |
| Dividends and distributions   | (143,769)                          | (126,154) |
| Net cash used in financing activities   | (13,536)                           | (23,744)  |
| Net change in cash and cash equivalents   | 59                                 | 253       |
| Cash and cash equivalents, beginning of period                                    | 5,247                              | 4,429     |
| Cash and cash equivalents, end of period  | \$ 5,306                           | \$ 4,682  |
| <b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>                           |                                    |           |
| Cash paid for interest, net of capitalized amounts                                | \$ 21,209                          | \$ 12,310 |

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|  |            |           |
|--|------------|-----------|
| Cash paid for operating lease liabilities                    | \$ 18,116  | \$ 15,441 |
| NON-CASH INVESTING AND FINANCING ACTIVITY                    |            |           |
| Construction costs payable capitalized to real estate        | \$ 37,816  | \$ 17,303 |
| Accrual of dividends and distributions                       | \$ 51,840  | \$ 46,523 |
| NON-CASH OPERATING ACTIVITY                                  |            |           |
| Lease liabilities arising from obtaining right-of-use assets | \$ 114,989 | \$ 8,330  |

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

(unaudited)

1. Organization and Description of Business

CoreSite Realty Corporation (the “Company,” “we,” “us,” or “our”) was organized in the State of Maryland on February 17, 2010, and is a fully-integrated, self-administered, and self-managed real estate investment trust (“REIT”). Through our controlling interest in CoreSite, L.P. (our “Operating Partnership”), we are engaged in the business of owning, acquiring, constructing and operating data centers. As of September 30, 2018, the Company owns a 75.8% common interest in our Operating Partnership, and affiliates of The Carlyle Group and others own a 24.2% interest in our Operating Partnership. See additional discussion in Note 10, Noncontrolling Interests — Operating Partnership.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by our management in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in compliance with the rules and regulations of the U.S. Securities and Exchange Commission. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the three and nine months ended September 30, 2018, are not necessarily indicative of the expected results for the year ending December 31, 2018. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017.

Our Operating Partnership meets the definition and criteria of a variable interest entity (“VIE”) and we are the primary beneficiary of the VIE. Our sole significant asset is the investment in our Operating Partnership, and consequently, substantially all of our assets and liabilities represent those assets and liabilities of our Operating Partnership. Our debt is an obligation of our Operating Partnership where the creditors also have recourse against the credit of the Company. Intercompany balances and transactions have been eliminated upon consolidation.

## Recently Adopted Accounting Pronouncements

### Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance codified in Accounting Standards Codification (“ASC”) Topic 606, Revenue Recognition — Revenue from Contracts with Customers, which amends the guidance in former ASC Topic 605, Revenue Recognition. The standard establishes a five-step model framework which recognizes revenue as an entity transfers control of goods or services to the customer and requires enhanced disclosures.

The standard provides guidance for our nonlease revenue components. We adopted this standard effective January 1, 2018, using the cumulative effect method. The adoption did not result in a cumulative catch-up adjustment to opening equity and does not change the recognition pattern of our operating revenues. Under the standard, disclosures are required to provide information on the nature, amount, timing, and uncertainty of revenue, certain costs, and cash flows arising from contracts with customers. See additional discussion below and in Note 6, Lease Revenue.

### Leases

In February 2016, the FASB issued guidance codified in ASC Topic 842, Leases, which amends the guidance in former ASC Topic 840, Leases. The new standard increases transparency and comparability by requiring the recognition by lessees of right-of-use (“ROU”) assets and lease liabilities on the balance sheet for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

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We elected to early adopt the lease standard effective January 1, 2018, concurrent with our adoption of the new revenue recognition standard. The lease standard requires a modified retrospective transition approach as of the January 1, 2016, transition date. We elected the package of practical expedients, which permits us to not reassess (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases, and (3) any initial direct costs for any existing leases as of the effective date. We did not elect the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment. The adoption of the lease standard did not result in a cumulative catch-up adjustment to opening equity.

Adoption of the lease standard had a material impact on our condensed consolidated balance sheets. As a lessee, we adjusted certain previously reported financial statements to include the recognition of ROU assets and lease liabilities for operating leases. See the table below for the impact of adoption of the lease standard on our condensed consolidated balance sheet as of December 31, 2017 (in thousands):

|                                     | As<br>Previously<br>Reported | New Lease<br>Standard<br>Adjustment | As<br>Adjusted |
|-------------------------------------|------------------------------|-------------------------------------|----------------|
| Operating lease right-of-use assets | \$ —                         | \$ 92,984                           | \$ 92,984      |
| Operating lease liabilities         | —                            | 102,912                             | 102,912        |
| Deferred rent payable               | 9,928                        | (9,928)                             | —              |

As a lessor, our recognition of rental revenue remained mainly consistent with previous guidance, apart from the narrower definition of initial direct costs that can be capitalized. The new standard defines initial direct costs as only the incremental costs of signing a lease. Internal sales employees' compensation, payroll-related fringe benefits and certain external legal fees related to the execution of successful lease agreements no longer meet the definition of initial direct costs under the new standard and will be accounted for as a sales and marketing expense or general and administrative expense in our condensed consolidated statements of operations. As a result of electing the package of practical expedients described above, existing leases, including the allocation of consideration between lease and nonlease components, and related initial direct costs have not been reassessed prior to the effective date and therefore adoption of the lease standard did not have an impact on our previously reported condensed consolidated statements of operations for initial direct costs.

In July 2018, the FASB issued guidance codified in Accounting Standards Update ("ASU") 2018-11, Leases – Targeted Improvements. The ASU provides a practical expedient, which allows lessors to combine nonlease components with the related lease components if both the timing and pattern of transfer are the same for the nonlease component(s) and related lease component, and the lease component would be classified as an operating lease. The single combined component is accounted for under ASC 842 if the lease component is the predominant component and is accounted for under ASC 606 if the nonlease components are the predominant components. Lessors are permitted to apply the practical expedient to all existing leases on a retrospective or prospective basis. We elected the practical expedient to combine our lease and nonlease components that meet the defined criteria and will account for the combined lease component under ASC 842 on a retrospective basis. As a result of electing this practical expedient, we have adjusted



our condensed consolidated statements of operations to present our data center revenues as follows:

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|  | Previous<br>Presentation | ASU<br>2018-11<br>Adjustment | Adjusted<br>Presentation |
|--|--------------------------|------------------------------|--------------------------|
| Condensed Consolidated Statement of Operations |                          |                              |                          |
| Three Months Ended September 30, 2018          |                          |                              |                          |
| Rental revenue                                 | \$ 74,321                | \$ (74,321)                  | \$ —                     |
| Power revenue                                  | 40,967                   | (40,967)                     | —                        |
| Tenant reimbursement and other                 | 3,302                    | (3,302)                      | —                        |
| Rental, power, and related revenue             | —                        | 118,590                      | 118,590                  |
| Three Months Ended September 30, 2017          |                          |                              |                          |
| Rental revenue                                 | \$ 66,657                | \$ (66,657)                  | \$ —                     |
| Power revenue                                  | 35,110                   | (35,110)                     | —                        |
| Tenant reimbursement and other                 | 2,185                    | (2,185)                      | —                        |
| Rental, power, and related revenue             | —                        | 103,952                      | 103,952                  |
| Nine Months Ended September 30, 2018           |                          |                              |                          |
| Rental revenue                                 | \$ 219,497               | \$ (219,497)                 | \$ —                     |
| Power revenue                                  | 116,356                  | (116,356)                    | —                        |
| Tenant reimbursement and other                 | 8,892                    | (8,892)                      | —                        |
| Rental, power, and related revenue             | —                        | 344,745                      | 344,745                  |
| Nine Months Ended September 30, 2017           |                          |                              |                          |
| Rental revenue                                 | \$ 195,761               | \$ (195,761)                 | \$ —                     |
| Power revenue                                  | 98,381                   | (98,381)                     | —                        |
| Tenant reimbursement and other                 | 6,790                    | (6,790)                      | —                        |
| Rental, power, and related revenue             | —                        | 300,932                      | 300,932                  |

## Statement of Cash Flows

In August 2016, the FASB issued guidance codified in ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The standard provides guidance on eight specific cash flow classification issues including debt prepayment or debt extinguishment costs, contingent consideration payments made after a business combination, and separately identifiable cash flows and application of the predominance principle. We adopted this standard effective January 1, 2018, and the provisions of ASU 2016-15 did not have a material impact on our condensed consolidated financial statements.

## Derivatives and Hedging

In August 2017, the FASB issued guidance codified in ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 simplifies hedge accounting by eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line item as the hedged item. The standard will be effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. We elected to early adopt this standard

effective April 1, 2018, with an initial application date of January 1, 2018, using a modified retrospective transition and the provisions of ASU 2017-12 did not have a material impact on our condensed consolidated financial statements.

#### Recent Accounting Pronouncements Not Yet Adopted

#### Intangibles – Goodwill and Other

In January 2017, the FASB issued guidance codified in ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017-04 simplifies the accounting for goodwill impairment by eliminating the process of measuring the implied value of goodwill, known as step two, from the goodwill impairment test. Instead, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The standard will be effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We

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do not expect the provisions of ASU 2017-04 to have a material impact on our condensed consolidated financial statements.

### Fair Value Measurement

In August 2018, the FASB issued guidance codified in ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 improves the overall usefulness of disclosures to financial statement users and reduces unnecessary costs in preparing fair value measurement disclosures. The standard will be effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We do not expect the provisions of ASU 2018-13 to have a material impact on our condensed consolidated financial statements.

### Intangibles – Goodwill and Other – Internal-Use Software

In August 2018, the FASB issued guidance codified in ASU 2018-15, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 clarifies that implementation costs incurred by customers in cloud computing arrangements are deferred if they would be capitalized by customers in software licensing arrangements under the internal-use software guidance. Additionally, ASU 2018-15 clarifies that all capitalized costs must be presented in the same financial statement line item as the cloud computing arrangement. The standard will be effective, on either a prospective or retrospective basis, for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. We are currently evaluating the provisions of ASU 2018-15 and whether the provisions will have a material impact on our condensed consolidated financial statements.

### Use of Estimates

The preparation of these unaudited condensed consolidated financial statements, in conformity with GAAP, requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates, including those related to assessing our standalone selling prices, performance-based equity compensation plans and the carrying values of our real estate properties, goodwill, and accrued liabilities. We base our estimates on historical experience, current market conditions, and various other assumptions that we believe to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could vary under different assumptions or conditions.

### Investments in Real Estate

Real estate investments are carried at cost less accumulated depreciation and amortization. The cost of real estate includes the purchase price of property and leasehold improvements. Expenditures for maintenance and repairs are

expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized. During land development and construction periods, we capitalize construction costs, legal fees, financing costs, real estate taxes and insurance, rent expense and internal costs of personnel performing development, if such costs are incremental and identifiable to a specific development project. Capitalization of costs begins upon commencement of development efforts and ceases when the project is ready for its intended use and held available for occupancy. Interest is capitalized during the period of development based upon applying the weighted-average borrowing rate to the actual development costs expended. Capitalized interest costs were \$1.3 million and \$0.8 million for the three months ended September 30, 2018, and 2017, respectively. Capitalized interest costs were \$3.5 million and \$2.2 million for the nine months ended September 30, 2018, and 2017, respectively.

Depreciation and amortization are calculated using the straight-line method over the following useful lives of the assets:

|                        |   |
|------------------------|---|
| Buildings              | 27 to 40 years  |
| Building improvements  | 1 to 10 years   |
| Leasehold improvements | The shorter of the lease term or useful life of the asset |

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Depreciation expense was \$31.4 million and \$27.0 million for the three months ended September 30, 2018, and 2017, respectively. Depreciation expense was \$91.3 million and \$80.5 million for the nine months ended September 30, 2018, and 2017, respectively.

### Acquisition of Investment in Real Estate

When accounting for business combinations and asset acquisitions, the fair value of the real estate acquired is allocated to the acquired tangible assets, consisting primarily of land, building and building improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and the value of customer relationships.

The fair value of the land and building of an acquired property is determined by valuing the property as if it were vacant, and the “as-if-vacant” fair value is then allocated to land and building based on management's determination of the fair values of these assets. Management determines the as-if-vacant fair value of a property using methods similar to those used by independent appraisers. Factors considered by management in performing these analyses include an estimate of carrying costs during the expected lease-up periods considering current market conditions and costs to execute similar leases.

The fair value of intangibles related to in-place leases includes the value of lease intangibles for above-market and below-market leases, lease origination costs, and customer relationships, determined on a lease-by-lease basis. Above-market and below-market leases are valued based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between (i) the contractual amounts to be paid pursuant to the in-place leases and (ii) management's estimate of market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease and, for below-market leases, over a time period equal to the initial term plus any below-market fixed rate renewal periods. Lease origination costs include estimates of costs avoided associated with leasing the property, including tenant allowances and improvements and leasing commissions. Customer relationship intangibles relate to the additional revenue opportunities expected to be generated through interconnection services and utility services to be provided to the in-place lease tenants.

The capitalized values for above and below-market lease intangibles, lease origination costs, and customer relationships are amortized over the term of the underlying leases or the expected customer relationship. Amortization related to above-market and below-market leases where the Company is the lessor is recorded as either a reduction of or an increase to rental revenue, amortization related to above-market and below-market leases where the Company is the lessee is recorded as either a reduction of or an increase to rent expense. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off.

The carrying value of intangible assets is reviewed for impairment in connection with its respective asset group whenever events or changes in circumstances indicate that the asset group may not be recoverable. An impairment loss is recognized if the carrying amount of the asset group is not recoverable and its carrying amount exceeds its estimated fair value. No impairment loss related to these intangible assets was recognized for the three or nine months ended September 30, 2018, or 2017.

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. As of September 30, 2018, and December 31, 2017, we had \$40.6 million of goodwill at each date. The Company's goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. No impairment loss was recognized for the three or nine months ended September 30, 2018, or 2017.

#### Cash and Cash Equivalents

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

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## Initial Direct Costs

Initial direct costs include commissions paid to third parties, including brokers, leasing and referral agents, and internal sales commissions paid to employees for successful execution of lease agreements. Initial direct costs are incremental costs that would not have been incurred if the lease agreement had not been executed. These commissions are capitalized and generally amortized over the term of the related leases using the straight-line method. If a customer lease terminates prior to the expiration of its initial term, any unamortized initial direct costs related to the lease are written off to amortization expense. Amortization of initial direct costs were \$4.0 million and \$4.1 million for the three months ended September 30, 2018, and 2017, respectively. Amortization of initial direct costs were \$11.8 million and \$12.2 million for the nine months ended September 30, 2018, and 2017, respectively. Initial direct costs are included within other assets in the condensed consolidated balance sheets and consisted of the following, net of amortization, as of September 30, 2018, and December 31, 2017 (in thousands):

|                            | September<br>30,<br>2018 | December<br>31,<br>2017 |
|----------------------------|--------------------------|-------------------------|
| Internal sales commissions | \$ 15,037                | \$ 17,402               |
| Third party commissions    | 10,021                   | 11,802                  |
| Other                      | 640                      | 775                     |
| Total                      | \$ 25,698                | \$ 29,979               |

## Deferred Financing Costs

Deferred financing costs include costs incurred in connection with obtaining debt and extending existing debt. These financing costs are capitalized and amortized on a straight-line basis, which approximates the effective-interest method, over the term of the indebtedness and the amortization is included as a component of interest expense. Depending on the type of debt instrument, deferred financing costs are reported either in other assets or as a direct deduction from the carrying amount of the related debt liabilities in our condensed consolidated balance sheets.

## Recoverability of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and without interest charges) are less than the carrying amount of the assets. The estimation of expected future net cash flows is inherently uncertain and relies, to a considerable extent, on assumptions regarding current and future economics and market conditions and the availability of capital. If, in future periods, there are changes in the estimates or assumptions incorporated into the impairment review analysis, the changes could result in



an adjustment to the carrying amount of the long-lived assets. To the extent that impairment has occurred, the excess of the carrying amount of long-lived assets over its estimated fair value would be recognized as an impairment loss charged to net income. For the three and nine months ended September 30, 2018, and 2017, no impairment of long-lived assets was recognized in the condensed consolidated financial statements.

#### Derivative Instruments and Hedging Activities

We reflect all derivative instruments at fair value as either assets or liabilities on the condensed consolidated balance sheets. For those derivative instruments that are designated and qualify as hedging instruments, we record the gain or loss on the hedging instruments as a component of accumulated other comprehensive income or loss. For derivatives that do not meet the criteria for hedge accounting, changes in fair value are immediately recognized within net income. See additional discussion in Note 8, Derivatives and Hedging Activities.

#### Internal-Use Software

We recognize internal-use software development costs based on the development stage of the project and nature of the cost. Internal and external costs incurred during the preliminary project stage are expensed as they are incurred. Internal and external costs incurred to develop internal-use software during the application development stage are capitalized. Internal and external training costs and maintenance costs during the post-implementation-operation stage are expensed as incurred. Completed projects are placed into service and amortized over the estimated useful life of the software. No

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impairment was recognized related to internal-use software in the condensed consolidated statements of operations for the three and nine months ended September 30, 2018, and 2017.

### Revenue Recognition

#### Rental, Power, and Related Revenue

We derive our revenues from leases with customers for data center and office and light-industrial space. Our leases include rental revenue lease components and nonlease revenue components, such as power and tenant reimbursements. We have elected to combine all of our nonlease revenue components that have the same pattern of transfer as the related operating lease component into a single combined lease component.

Our leases with customers are classified as operating leases and rental revenue is recognized on a straight-line basis over the customer lease term. Occasionally, our customer leases include options to extend or terminate the lease agreements. We do not include any of these extension or termination options in a customer's lease term for lease classification purposes or for recognizing rental revenue unless we are reasonably certain the customer will exercise these extension or termination options. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is recorded as deferred rent receivable within other assets on our condensed consolidated balance sheets.

In general, we provide two power products for our data center leased space, consisting of a fixed (breakered-amperage) and variable (sub-metered) model. Customer power arrangements are coterminous with the customer's underlying lease and have the same pattern of transfer over the lease term and are therefore combined with lease revenue within our condensed consolidated statements of operations. For variable power arrangements, a customer pays us variable monthly fees for the specific amount of power utilized at the current utility rates. We recognize variable power revenue each month as the uncertainty related to the consideration is resolved, as power is provided to our customers, and our customers utilize the power.

Some of our leases contain provisions under which our customers reimburse us for common area maintenance and other executory costs. These customer reimbursements are variable and are recognized in the period that the expenses are recognized. These services have the same pattern of transfer over the lease term and are also combined with lease revenue within our condensed consolidated statements of operations.

We also provide other data center support services to our customers, which are generally provided to customers at a point in time. We recognize revenue each month as these services are delivered to and utilized by our customers.

## Interconnection Revenue

We also derive revenue from interconnection services, which are generally contracted on a month-to-month basis cancellable by the customer at any time. Interconnection services are accounted for as separate contracts and are not combined with lease and power arrangements. We recognize interconnection revenue each month as these services are delivered to, and utilized by, our customers.

A provision for uncollectible accounts is recorded if a receivable balance relating to contractual rent, rental revenue recorded on a straight-line basis, tenant reimbursements or other billed amounts is considered by management to be uncollectible. At September 30, 2018, and December 31, 2017, the allowance for doubtful accounts totaled \$0.4 million and \$1.1 million, respectively, on the condensed consolidated balance sheets.

## Lessee Accounting

We determine if an arrangement is a lease at inception. Our operating lease agreements are primarily for real estate space and are included within operating lease ROU assets and operating lease liabilities on the condensed consolidated balance sheets. We elected the practical expedient to combine our lease and related nonlease components for our lessee building leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. Our variable lease payments consist of nonlease services related to the lease. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in

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the period in which the obligation for those payments is incurred. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. ROU assets also include any lease payments made and exclude lease incentives. Many of our lessee agreements include options to extend the lease, which we do not include in our minimum lease terms unless they are reasonably certain to be exercised. Rental expense for lease payments related to operating leases is recognized on a straight-line basis over the lease term.

## Share-Based Compensation

We account for share-based compensation using the fair value method of accounting. The estimated fair value of the stock options granted by us is calculated based on the Black-Scholes option-pricing model. The fair value of restricted share-based and Operating Partnership unit compensation is based on the fair value of our common stock on the date of the grant. The fair value of performance share awards, which have a market condition, is based on a Monte Carlo simulation. The fair value for all share-based compensation is amortized on a straight-line basis over the vesting period. We have elected to account for forfeitures as they occur.

## Asset Retirement and Environmental Remediation Obligations

We record accruals for estimated asset retirement and environmental remediation obligations. The obligations relate primarily to the removal of asbestos during development of properties as well as the estimated equipment removal costs upon termination of a certain lease where we are the lessee. At September 30, 2018, and December 31, 2017, the amount included in unearned revenue, prepaid rent and other liabilities on the condensed consolidated balance sheets was \$1.6 million and \$1.5 million, respectively.

## Income Taxes

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”), commencing with our taxable year ended December 31, 2010. To qualify as a REIT, we are required to distribute at least 90% of our taxable income to our stockholders and meet various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we generally are not subject to corporate level federal income tax on the earnings distributed currently to our stockholders. If we fail to qualify as a REIT in any taxable year, and are unable to avail ourselves of certain savings provisions set forth in the Code, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

To maintain REIT status, we must distribute a minimum of 90% of our taxable income. However, it is our policy and intent, subject to change, to distribute 100% of our taxable income and therefore, no provision is required in the

accompanying condensed consolidated financial statements for federal income taxes with regards to our activities and our subsidiary pass-through entities. The allocable share of taxable income is included in the income tax returns of our stockholders. We are subject to the statutory requirements of the locations in which we conduct business. State and local income taxes are accrued as deemed required in the best judgment of management based on analysis and interpretation of respective tax laws.

We have elected to treat certain subsidiaries as taxable REIT subsidiaries (“TRS”). Certain activities that we undertake must be conducted by a TRS, such as services for our tenants that could be considered otherwise impermissible for us to perform and holding assets that we cannot hold directly. A TRS is subject to corporate level federal and state income taxes.

Deferred income taxes are recognized in certain taxable entities. Deferred income tax generally is a function of the period's temporary differences (items that are treated differently for tax purposes than for financial reporting purposes), the utilization of tax net operating losses generated in prior years that previously had been recognized as deferred income tax assets and the reversal of any previously recorded deferred income tax liabilities. A valuation allowance for deferred income tax assets is provided if we believe all or some portion of the deferred income tax asset may more likely than not be realized. Any increase or decrease in the valuation allowance resulting from a change in circumstances that causes a change in the estimated realizability of the related deferred income tax asset is included in deferred tax expense. As of September 30, 2018, and December 31, 2017, the gross deferred income taxes were not material.

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We currently have no liabilities for uncertain income tax positions. The earliest tax year for which we are subject to examination is 2015.

## Concentration of Credit Risks

Our cash and cash equivalents are maintained in various financial institutions, which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts, and management believes that the Company is not exposed to any significant credit risk in this area. We have no off-balance sheet concentrations of credit risk, such as foreign exchange contracts, option contracts, or foreign currency hedging arrangements.

## Segment Information

We manage our business as one reportable segment consisting of investments in data centers located in the United States. Although we provide services in several markets, these operations have been aggregated into one reportable segment based on the similar economic characteristics amongst all markets, including the nature of the services provided and the type of customers purchasing these services.

## 3. Investment in Real Estate

The following is a summary of the properties owned or leased by market at September 30, 2018 (in thousands):

| Market            | Land      | Buildings and<br>Improvements | Construction in<br>Progress | Total Cost   |
|-------------------|-----------|-------------------------------|-----------------------------|--------------|
| Boston            | \$ 5,154  | \$ 107,605                    | \$ 994                      | \$ 113,753   |
| Chicago(1)        | 5,493     | 113,697                       | 7,580                       | 126,770      |
| Denver            | —         | 30,008                        | 255                         | 30,263       |
| Los Angeles(2)    | 28,467    | 334,035                       | 20,602                      | 383,104      |
| Miami             | 728       | 13,982                        | 7                           | 14,717       |
| New York          | 2,729     | 149,941                       | 35,953                      | 188,623      |
| Northern Virginia | 23,679    | 326,350                       | 92,990                      | 443,019      |
| San Francisco Bay | 31,386    | 626,214                       | 41,395                      | 698,995      |
| Total             | \$ 97,636 | \$ 1,701,832                  | \$ 199,776                  | \$ 1,999,244 |

(1) On January 29, 2018, we acquired a two-acre land parcel located in downtown Chicago, Illinois, for a purchase price of \$4.5 million. We expect to build a 175,000 square foot turn-key data center building on the acquired land parcel, which we refer to as CH2, upon the receipt of necessary permits and entitlements.

- (2) On April 20, 2018, we acquired U.S. Colo, a carrier-neutral, network-dense colocation provider, located in Los Angeles, California, for a purchase price of \$6.3 million, net of previously accrued legal expense. In connection with the U.S. Colo acquisition, we assumed a leasehold interest of 6,723 square feet at our existing LA1 facility. We also assumed a leasehold interest of 21,850 square feet at a nearby colocation data center facility, which we refer to as LA4.

#### 4. Other Assets

Other assets consisted of the following, net of amortization and depreciation, if applicable for each line item, as of September 30, 2018, and December 31, 2017 (in thousands):

|  | September<br>30,<br>2018 | December<br>31,<br>2017 |
|--|--------------------------|-------------------------|
| Deferred rent receivable                             | \$ 42,967                | \$ 40,038               |
| Initial direct costs                                 | 25,698                   | 29,979                  |
| Internal-use software                                | 17,611                   | 17,477                  |
| Prepaid expenses                                     | 9,270                    | 6,770                   |
| Corporate furniture, fixtures and equipment          | 5,370                    | 6,408                   |
| Deferred financing costs - revolving credit facility | 3,098                    | 957                     |
| Other  | 2,892                    | 1,872                   |
| Total  | \$ 106,906               | \$ 103,501              |

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## 5. Leases

As the lessee, we currently lease real estate space under noncancelable operating lease agreements for our turn-key data centers at NY1, LA1, LA4, DC1, DC2, DE1, and DE2, and our corporate headquarters located in Denver, Colorado. Our leases have remaining lease terms of one year to 11 years, some of which include options to extend the leases for up to an additional 20 years. We do not include any of our renewal options in our lease terms for calculating our lease liability as the renewal options allow us to maintain operational flexibility and we are not reasonably certain we will exercise these renewal options at this time. The weighted-average remaining non-cancelable lease term for our operating leases was ten years and five years at September 30, 2018, and December 31, 2017, respectively. The weighted-average discount rate was 4.9% and 4.8% at September 30, 2018, and December 31, 2017.

During the nine months ended September 30, 2018, we extended the term of approximately 170,000 NRSF of our existing LA1 space from July 2022 to July 2029 and expanded our LA1 facility by leasing an additional 17,238 square feet, which we plan to develop into turn-key data center space. As a result of this lease modification, we remeasured the lease liability and adjusted the ROU asset by \$109.6 million and \$109.1 million, respectively. In addition, we assumed a \$5.3 million lease liability and ROU asset associated with the acquisition of U.S. Colo in April 2018.

The components of lease expense were as follows (in thousands):

|                         | Three Months             |          | Nine Months Ended  |           |
|-------------------------|--------------------------|----------|--------------------|-----------|
|                         | Ended September 30, 2018 | 2017     | September 30, 2018 | 2017      |
| Lease expense:          |                          |          |                    |           |
| Operating lease expense | \$ 6,144                 | \$ 5,078 | \$ 16,789          | \$ 15,256 |
| Variable lease expense  | 1,185                    | 999      | 3,487              | 2,714     |
| Rent expense            | \$ 7,329                 | \$ 6,077 | \$ 20,276          | \$ 17,970 |

The future minimum lease payments to be paid under noncancelable leases in effect at September 30, 2018, are as follows (in thousands):

| Period / Year Ending December 31, | Operating Leases |
|-----------------------------------|------------------|
| 2018                              | \$ 4,221         |
| 2019                              | 25,725           |
| 2020                              | 26,662           |
| 2021                              | 26,392           |
| 2022                              | 25,995           |



|                       |            |
|-----------------------|------------|
| Thereafter            | 153,753    |
| Total lease payments  | \$ 262,748 |
| Less imputed interest | (58,324)   |
| Total                 | \$ 204,424 |

## 6. Lease Revenue

The components of data center, office, light-industrial, and other lease revenue were as follows (in thousands):

|                        | Three Months Ended    |            | Nine Months Ended     |            |
|------------------------|-----------------------|------------|-----------------------|------------|
|                        | September 30,<br>2018 | 2017       | September 30,<br>2018 | 2017       |
| Lease revenue:         |                       |            |                       |            |
| Minimum lease revenue  | \$ 98,294             | \$ 88,323  | \$ 291,488            | \$ 259,537 |
| Variable lease revenue | 23,185                | 18,544     | 62,075                | 50,300     |
| Total lease revenue    | \$ 121,479            | \$ 106,867 | \$ 353,563            | \$ 309,837 |

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The future minimum lease payments to be received under noncancelable data center, office, light-industrial, and other operating leases in effect at September 30, 2018, are as follows (in thousands):

| Period / Year Ending December 31, | Lease Payments |
|-----------------------------------|----------------|
| 2018                              | \$ 87,868      |
| 2019                              | 293,440        |
| 2020                              | 201,259        |
| 2021                              | 149,168        |
| 2022                              | 104,563        |
| Thereafter                        | 188,149        |
| Total                             | \$ 1,024,447   |

## 7. Debt

A summary of outstanding indebtedness as of September 30, 2018, and December 31, 2017, is as follows (in thousands):

|                                    | Interest Rate  | Maturity Date    | September 30, 2018 | December 31, 2017 |
|------------------------------------|--|------------------|--------------------|-------------------|
| Revolving credit facility          | 3.71% and 3.11% at September 30, 2018, and December 31, 2017, respectively | April 19, 2022   | \$ 154,500         | \$ 169,500        |
| 2020 Senior unsecured term loan(1) | 3.24% and 3.00% at September 30, 2018, and December 31, 2017, respectively | June 24, 2020    | 150,000            | 150,000           |
| 2021 Senior unsecured term loan    | 3.66% and 3.06% at September 30, 2018, and December 31, 2017, respectively | February 2, 2021 | 100,000            | 100,000           |
| 2022 Senior unsecured term loan(2) | 3.47% and 3.04% at September 30, 2018, and December 31, 2017, respectively | April 19, 2022   | 200,000            | 200,000           |
|                                    | 3.89% at September 30, 2018  |                  | 150,000            | —                 |

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|                                      |  |                |              |            |
|--------------------------------------|--|----------------|--------------|------------|
| 2023 Senior unsecured term loan(3)   |  | April 19, 2023 |              |            |
| 2023 Senior unsecured notes          | 4.19% at September 30, 2018, and December 31, 2017, respectively | June 15, 2023  | 150,000      | 150,000    |
| 2024 Senior unsecured notes          | 3.91% at September 30, 2018, and December 31, 2017, respectively | April 20, 2024 | 175,000      | 175,000    |
| Total principal outstanding          |  |                | 1,079,500    | 944,500    |
| Unamortized deferred financing costs |  |                | (6,021)      | (4,930)    |
| Total debt                           |  |                | \$ 1,073,479 | \$ 939,570 |

- (1) Our Operating Partnership has in place a swap agreement with respect to the 2020 Term Loan (as defined below), effective through May 5, 2020, to swap the variable interest rate associated with \$75 million, or 50% of the principal amount, of the 2020 Term Loan to a fixed rate of approximately 2.83% per annum at our current leverage ratio as of September 30, 2018. The interest rate on the remaining \$75 million of the 2020 Term Loan is based on LIBOR plus the applicable spread. The effective interest rate as of September 30, 2018, is 3.24%. See Note 8 – Derivatives and Hedging Activities.
- (2) Our Operating Partnership has in place a swap agreement with respect to the 2022 Term Loan (as defined below), effective through January 31, 2019, to swap the variable interest rate associated with \$50 million, or 25% of the principal amount of the 2022 Term Loan to a fixed rate of approximately 2.88% per annum at our current leverage ratio as of September 30, 2018. The interest rate on the remaining \$150 million of the 2022 Term Loan is based on LIBOR plus the applicable spread. The effective interest rate as of September 30, 2018, is 3.47%. See Note 8 – Derivatives and Hedging Activities.
- (3) Our Operating Partnership has in place a swap agreement with respect to the 2023 Term Loan (as defined below), effective through April 5, 2023, to swap the variable interest rate associated with \$75 million, or 50% of the principal amount of the 2023 Term Loan, to a fixed rate of approximately 4.12% per annum at our current leverage ratio as of September 30, 2018. The interest rate on the remaining \$75 million of the 2023 Term Loan is based on LIBOR plus the applicable spread. The effective interest rate as of September 30, 2018, is 3.89%. See Note 8 – Derivatives and Hedging Activities.

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Revolving Credit Facility

On April 19, 2018, our Operating Partnership and certain subsidiary co-borrowers amended and restated our previous credit agreement, (as amended, the “Amended and Restated Credit Agreement”), in order to provide additional liquidity of \$250 million, which was used to pay down a portion of the then-existing current revolving credit facility balance, fund continued development across our portfolio, and for general corporate purposes. The Amended and Restated Credit Agreement, among other things, increased the revolving credit facility from \$350 million to \$450 million and extended the maturity date from June 24, 2019, to April 19, 2022, with a one-time extension option, which, if exercised, would extend the maturity date to April 19, 2023. The exercise of the extension option is subject to the payment of an extension fee equal to 10 basis points of the total commitment under the Amended and Restated Credit Agreement at initial maturity and certain other customary conditions. The Amended and Restated Credit Agreement increased our total commitment from \$600 million to \$850 million, consisting of a \$450 million revolving credit facility, a \$150 million senior unsecured term loan scheduled to mature on June 24, 2020, a \$100 million senior unsecured term loan scheduled to mature on February 2, 2021, and a new \$150 million senior unsecured term loan scheduled to mature on April 19, 2023. See “2020 Senior Unsecured Term Loan,” “2021 Senior Unsecured Term Loan,” and “2023 Senior Unsecured Term Loan” below for a discussion of the \$150 million, \$100 million, and \$150 million term loans, respectively. The Amended and Restated Credit Agreement also increased our accordion feature by \$150 million to \$350 million, which allows our Operating Partnership to increase the total commitment from \$850 million to \$1.2 billion, under specified circumstances, including securing capital from new or existing lenders.

Borrowings under the revolving credit facility have been amended to bear interest at a variable rate per annum equal to either (i) LIBOR plus 145 basis points to 205 basis points, or (ii) a base rate plus 45 basis points to 105 basis points, each depending on our Operating Partnership’s leverage ratio. At September 30, 2018, our Operating Partnership’s leverage ratio was 24.8% and the interest rate was LIBOR plus 145 basis points.

The total amount available for borrowing under the revolving credit facility, is equal to the lesser of \$450.0 million or the availability calculated based on our unencumbered asset pool. As of September 30, 2018, the borrowing capacity was \$450.0 million. As of September 30, 2018, \$154.5 million was borrowed and outstanding, \$4.9 million was outstanding under letters of credit, and therefore \$290.6 million remained available for us to borrow under the revolving credit facility.