

CoreSite Realty Corp  
Form 10-Q  
July 28, 2017  
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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 June 30, 2017

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

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
(Do not check if a 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 July 26, 2017, was 34,235,066.



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FOR THE QUARTER ENDED June 30, 2017

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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 data)

	June 30, 2017	December 31, 2016
<b>ASSETS</b>		
Investments in real estate:		
Land	\$ 97,258	\$ 100,258
Buildings and improvements	1,484,740	1,472,580
	1,581,998	1,572,838
Less: Accumulated depreciation and amortization	(420,768)	(369,303)
Net investment in operating properties	1,161,230	1,203,535
Construction in progress	128,423	70,738
Net investments in real estate	1,289,653	1,274,273
Cash and cash equivalents	22,334	4,429
Accounts and other receivables, net of allowance for doubtful accounts of \$470 and \$209 as of June 30, 2017, and December 31, 2016, respectively	21,558	25,125
Lease intangibles, net of accumulated amortization of \$13,329 and \$12,385 as of June 30, 2017, and December 31, 2016, respectively	7,664	9,913
Goodwill	40,646	41,191
Other assets, net	103,653	96,372
Total assets	\$ 1,485,508	\$ 1,451,303
<b>LIABILITIES AND EQUITY</b>		
Liabilities:		
Debt, net of unamortized deferred financing costs of \$5,497 and \$3,550 as of June 30, 2017, and December 31, 2016, respectively	\$ 769,503	\$ 690,450
Accounts payable and accrued expenses	49,718	72,519
Accrued dividends and distributions	46,180	41,849
Deferred rent payable	9,405	7,694
Acquired below-market lease contracts, net of accumulated amortization of \$5,852 and \$5,439 as of June 30, 2017, and December 31, 2016, respectively	3,879	4,292
Unearned revenue, prepaid rent and other liabilities	36,380	37,413
Total liabilities	915,065	854,217

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Stockholders' equity:

Series A Cumulative Preferred Stock 7.25%, \$115,000 liquidation preference (\$25.00 per share, \$0.01 par value), 4,600,000 shares issued and outstanding as of June 30, 2017, and December 31, 2016	115,000	115,000
Common Stock, par value \$0.01, 100,000,000 shares authorized and 34,227,944 and 33,896,771 shares issued and outstanding at June 30, 2017, and December 31, 2016, respectively	338	334
Additional paid-in capital	447,796	438,531
Accumulated other comprehensive income (loss)	223	(101)
Distributions in excess of net income	(143,881)	(118,038)
Total stockholders' equity	419,476	435,726
Noncontrolling interests	150,967	161,360
Total equity	570,443	597,086
Total liabilities and equity	\$ 1,485,508	\$ 1,451,303

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating revenues:				
Data center revenue:				
Rental revenue	\$ 64,853	\$ 52,364	\$ 129,104	\$ 102,735
Power revenue	32,410	26,401	63,271	51,975
Interconnection revenue	15,325	12,977	29,837	25,719
Tenant reimbursement and other	2,329	2,326	4,605	4,156
Office, light-industrial and other revenue	2,969	2,022	5,990	3,985
Total operating revenues	117,886	96,090	232,807	188,570
Operating expenses:				
Property operating and maintenance	31,781	25,576	61,007	50,239
Real estate taxes and insurance	3,824	3,070	8,328	6,135
Depreciation and amortization	32,207	26,227	64,545	50,997
Sales and marketing	4,414	4,501	8,917	8,722
General and administrative	9,508	8,818	17,632	17,538
Rent	5,931	5,334	11,893	10,751
Transaction costs	139	6	139	9
Total operating expenses	87,804	73,532	172,461	144,391
Operating income	30,082	22,558	60,346	44,179
Interest expense	(5,958)	(2,680)	(11,065)	(4,691)
Income before income taxes	24,124	19,878	49,281	39,488
Income tax benefit (expense)	11	(43)	(86)	(47)
Net income	\$ 24,135	\$ 19,835	\$ 49,195	\$ 39,441
Net income attributable to noncontrolling interests	6,407	5,715	13,091	11,976
Net income attributable to CoreSite Realty Corporation	\$ 17,728	\$ 14,120	\$ 36,104	\$ 27,465
Preferred stock dividends	(2,085)	(2,085)	(4,169)	(4,169)
Net income attributable to common shares	\$ 15,643	\$ 12,035	\$ 31,935	\$ 23,296
Net income per share attributable to common shares:				
Basic	\$ 0.46	\$ 0.38	\$ 0.95	\$ 0.75
Diluted	\$ 0.46	\$ 0.37	\$ 0.94	\$ 0.74
Weighted average common shares outstanding				
Basic	33,835,727	32,022,845	33,698,022	31,137,769
Diluted	34,053,816	32,435,606	34,009,930	31,554,157

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		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Net income	\$ 24,135	\$ 19,835	\$ 49,195	\$ 39,441
Other comprehensive income (loss):				
Unrealized loss on derivative contracts	(323)	(1,223)	(10)	(4,421)
Reclassification of other comprehensive income to interest expense	170	450	467	906
Comprehensive income	23,982	19,062	49,652	35,926
Comprehensive income attributable to noncontrolling interests	6,363	5,510	13,224	10,791
Comprehensive income attributable to CoreSite Realty Corporation	\$ 17,619	\$ 13,552	\$ 36,428	\$ 25,135

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)

	Preferred Stock	Common Shares Number	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2017	\$ 115,000	33,896,771	\$ 334	\$ 438,531	\$ (101)	\$ (118,038)	\$ 435,726	\$ 161,360	\$ 597,086
Adoption of controlling interests	—	6,700	—	76	—	—	76	(76)	—
Issuance of awards, vesting of equity incentives	—	134,025	—	—	—	—	—	—	—
Exercise of stock options	—	190,448	2	4,676	—	—	4,678	—	4,678
Share-based compensation credits	—	—	2	4,513	—	—	4,515	—	4,515
Repurchased treasury stock	—	—	—	—	—	(4,169)	(4,169)	—	(4,169)
Dividends and distributions	—	—	—	—	—	(57,778)	(57,778)	(23,541)	(81,319)
Net income	—	—	—	—	—	36,104	36,104	13,091	49,195
Other comprehensive income	—	—	—	—	324	—	324	133	457
Balance at June 30, 2017	\$ 115,000	34,227,944	\$ 338	\$ 447,796	\$ 223	\$ (143,881)	\$ 419,476	\$ 150,967	\$ 570,443

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)

	Six Months Ended June 30,	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 49,195	\$ 39,441
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	64,545	50,997
Amortization of above/below market leases	(251)	(276)
Amortization of deferred financing costs	786	594
Share-based compensation	4,171	4,404
Bad debt expense	347	160
Changes in operating assets and liabilities:		
Accounts receivable	3,220	(1,727)
Deferred rent receivable	(2,548)	(1,641)
Deferred leasing costs	(6,758)	(6,638)
Other assets	(8,751)	(6,499)
Accounts payable and accrued expenses	990	(2,371)
Unearned revenue, prepaid rent and other liabilities	(722)	(987)
Deferred rent payable	1,711	(492)
Net cash provided by operating activities	105,935	74,965
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Tenant improvements	(4,809)	(2,069)
Real estate improvements	(85,333)	(129,065)
Net cash used in investing activities	(90,142)	(131,134)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from exercise of stock options	4,678	1,186
Proceeds from revolving credit facility	75,000	101,500
Payments on revolving credit facility	(269,000)	(243,750)
Proceeds from unsecured debt	275,000	250,000
Payments of loan fees and costs	(2,410)	(2,809)
Dividends and distributions	(81,156)	(54,569)