

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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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 30, 2018	December 31, 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 Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Number	Amount						
Balance at January 1, 2018	34,240,815	\$ 338	\$ 457,495	\$ 753	\$ (177,566)	\$ 281,020	\$ 137,624	\$ 418,644
Redemption of noncontrolling interests	2,257,056	23	20,817	127	—	20,967	(20,967)	—
Issuance of stock awards, net of forfeitures	187,668	—	—	—	—	—	—	—
Exercise of stock options	12,881	—	219	—	—	219	—	219
Share-based compensation	—	2	9,317	—	—	9,319	—	9,319
Dividends and distributions	—	—	—	—	(106,909)	(106,909)	(39,724)	(146,633)
Net income	—	—	—	—	58,291	58,291	22,574	80,865
Other comprehensive income	—	—	—	878	—	878	333	1,211
Balance at September 30, 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 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>		