CoreSite Realty Corp
Form 10-Q
October 27, 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 September 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	27-1925611
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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 (Do not check if a smaller reporting company)	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 25, 2017, was 34,241,504.

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CORESITE REALTY CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED September 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 and per share data)

	September 30, 2017	December 31, 2016
ASSETS		
Investments in real estate:		
Land	$ 97,258	$ 100,258
Buildings and improvements	1,512,015	1,472,580
	1,609,273	1,572,838
Less: Accumulated depreciation and amortization	(446,742)	(369,303)
Net investment in operating properties	1,162,531	1,203,535
Construction in progress	153,079	70,738
Net investments in real estate	1,315,610	1,274,273
Cash and cash equivalents	4,682	4,429
Accounts and other receivables, net of allowance for doubtful accounts of $1,020 and $209 as of September 30, 2017, and December 31, 2016, respectively	27,990	25,125
Lease intangibles, net of accumulated amortization of $7,910 and $12,385 as of September 30, 2017, and December 31, 2016, respectively	6,989	9,913
Goodwill	40,646	41,191
Other assets, net	104,039	96,372
Total assets	$ 1,499,956	$ 1,451,303
LIABILITIES AND EQUITY		
Liabilities:		
Debt, net of unamortized deferred financing costs of $5,213 and $3,550 as of September 30, 2017, and December 31, 2016, respectively	$ 788,787	$ 690,450
Accounts payable and accrued expenses	67,798	72,519
Accrued dividends and distributions	46,523	41,849
Deferred rent payable	9,674	7,694
Acquired below-market lease contracts, net of accumulated amortization of $5,424 and $5,439 as of September 30, 2017, and December 31, 2016, respectively	3,688	4,292
Unearned revenue, prepaid rent and other liabilities	31,260	37,413
Total liabilities	947,730	854,217

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 September 30, 2017, and December 31, 2016	115,000	115,000
Common Stock, par value $0.01, 100,000,000 shares authorized and 34,241,504 and 33,896,771 shares issued and outstanding at September 30, 2017, and December 31, 2016, respectively	338	334
Additional paid-in capital	450,594	438,531
Accumulated other comprehensive income (loss)	314	(101)
Distributions in excess of net income	(158,926)	(118,038)
Total stockholders' equity	407,320	435,726
Noncontrolling interests	144,906	161,360
Total equity	552,226	597,086
Total liabilities and equity	$ 1,499,956	$ 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Operating revenues:				
Data center revenue:				
Rental revenue	$ 66,657	$ 54,219	$ 195,761	$ 156,954
Power revenue	35,110	28,844	98,381	80,819
Interconnection revenue	16,201	13,374	46,038	39,093
Tenant reimbursement and other	2,185	2,826	6,790	6,982
Office, light-industrial and other revenue	2,915	2,011	8,905	5,996
Total operating revenues	123,068	101,274	355,875	289,844
Operating expenses:				
Property operating and maintenance	37,091	28,283	98,098	78,522
Real estate taxes and insurance	2,622	3,524	10,950	9,659
Depreciation and amortization	32,077	26,981	96,622	77,978
Sales and marketing	4,643	4,465	13,560	13,187
General and administrative	9,759	9,432	27,391	26,970
Rent	6,077	5,967	17,970	16,718
Transaction costs	—	117	139	126
Total operating expenses	92,269	78,769	264,730	223,160
Operating income	30,799	22,505	91,145	66,684
Interest expense	(6,447)	(3,188)	(17,512)	(7,879)
Income before income taxes	24,352	19,317	73,633	58,805
Income tax benefit (expense)	(64)	2	(150)	(45)
Net income	$ 24,288	$ 19,319	$ 73,483	$ 58,760
Net income attributable to noncontrolling interests	6,446	5,055	19,537	17,031
Net income attributable to CoreSite Realty Corporation	$ 17,842	$ 14,264	$ 53,946	$ 41,729
Preferred stock dividends	(2,084)	(2,084)	(6,253)	(6,253)
Net income attributable to common shares	$ 15,758	$ 12,180	$ 47,693	$ 35,476
Net income per share attributable to common shares:				
Basic	$ 0.47	$ 0.36	$ 1.41	$ 1.11
Diluted	$ 0.46	$ 0.36	$ 1.40	$ 1.10
Weighted average common shares outstanding				
Basic	33,878,881	33,425,762	33,758,971	31,906,000
Diluted	34,114,169	33,912,155	34,033,842	32,361,367

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income	$ 24,288	$ 19,319	$ 73,483	$ 58,760
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative contracts	41	824	31	(3,597)
Reclassification of other comprehensive income to interest expense	87	432	554	1,338
Comprehensive income	24,416	20,575	74,068	56,501
Comprehensive income attributable to noncontrolling interests	6,483	5,423	19,707	16,214
Comprehensive income attributable to CoreSite Realty Corporation	$ 17,933	$ 15,152	$ 54,361	$ 40,287

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	Common Shares Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Distributions in Excess of Net Income	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
nce at ary 1, 2017	$ 115,000	33,896,771	$ 334	$ 438,531	$ (101)	$ (118,038)	$ 435,726	$ 161,360	$ 597,086
mption of ontrolling ests	—	15,011	—	167	—	—	167	(167)	—
nce of awards, f itures	—	131,961	—	—	—	—	—	—	—
cise of options	—	197,761	2	4,818	—	—	4,820	—	4,820
e-based pensation	—	—	2	7,078	—	—	7,080	—	7,080
lends red on rred stock	—	—	—	—	—	(6,253)	(6,253)	—	(6,253)
lends and butions	—	—	—	—	—	(88,581)	(88,581)	(35,994)	(124,57
ncome	—	—	—	—	—	53,946	53,946	19,537	73,483
r prehensive ne	—	—	—	—	415	—	415	170	585
nce at ember 30,	$ 115,000	34,241,504	$ 338	$ 450,594	$ 314	$ (158,926)	$ 407,320	$ 144,906	$ 552,226

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,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 73,483	$ 58,760
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	96,622	77,978
Amortization of above/below market leases	(428)	(417)
Amortization of deferred financing costs	1,231	964
Share-based compensation	6,545	6,874
Bad debt expense	1,003	272
Changes in operating assets and liabilities:		
Accounts receivable	(3,867)	(4,140)
Deferred rent receivable	(3,161)	(1,906)
Deferred leasing costs	(9,956)	(10,534)
Other assets	(10,385)	(8,499)
Accounts payable and accrued expenses	3,758	1,413
Unearned revenue, prepaid rent and other liabilities	(5,841)	2,480
Deferred rent payable	1,980	(356)
Net cash provided by operating activities	150,984	122,889
CASH FLOWS FROM INVESTING ACTIVITIES		
Tenant improvements	(6,281)	(3,487)
Real estate improvements	(108,548)	(234,963)
Acquisition of SV8 land	(12,158)	—
Escrow deposits	—	(4,075)
Net cash used in investing activities	(126,987)	(242,525)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	4,820	1,243
Proceeds from revolving credit facility	107,000	200,250
Payments on revolving credit facility	(282,000)	(247,750)
Proceeds from unsecured debt	275,000	250,000
Payments of loan fees and costs	(2,410)	(2,981)
Dividends and distributions	(126,154)	(81,684)
Net cash provided by (used in) financing activities	(23,744)	119,078
Net change in cash and cash equivalents	253	(558)
Cash and cash equivalents, beginning of period	4,429	6,854
Cash and cash equivalents, end of period	$ 4,682	$ 6,296
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of capitalized amounts	$ 12,310	$ 5,912
NON-CASH INVESTING AND FINANCING ACTIVITY		

Construction costs payable capitalized to real estate	$ 17,303	$ 46,048
Accrual of dividends and distributions	$ 46,523	$ 28,630

See accompanying notes to condensed consolidated financial statements.

CORESITE REALTY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2017

(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, 2017, the Company owns a 71.0% common interest in our Operating Partnership, and affiliates of The Carlyle Group and others own a 29.0% interest in our Operating Partnership. See additional discussion in Note 8, 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, 2017, are not necessarily indicative of the expected results for the year ending December 31, 2017. 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, 2016.

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.

Recent Accounting Pronouncements

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. This standard does not apply to leases, which will be accounted for under ASC Topic 842, Leases. The revenue standard is effective for interim and annual reporting periods beginning after December 15, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. As ASC Topic 606 does not impact lessor accounting, we do not believe this standard will significantly impact our accounting for rental revenue. In addition, we do not anticipate a significant impact to our accounting for nonlease components, including power, interconnection, tenant reimbursement and other revenue.

In February 2016, the FASB issued guidance codified in ASC Topic 842, Leases, which amends the guidance in former ASC Topic 840, Leases. We are party to leases as both a lessor and lessee. The main principle of ASC 842 requires lessees to recognize the assets and liabilities that arise from nearly all leases on the consolidated balance sheet. Lessor accounting remains mainly consistent with current guidance, with the majority of changes allowing for better alignment with the new lessee model and ASC Topic 606. The standard is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. The standard requires a modified retrospective transition approach. We plan to adopt ASC Topic 842 and ASC Topic 606 effective January 1, 2018, which will result in a transition date of January 1, 2016.

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As a lessee we do not anticipate any change in the classification of our leases, but we will be required to recognize a lease liability and corresponding right-of-use asset on our consolidated balance sheets for all of our operating leases. Using the fixed noncancellable term of all existing data center leases, excluding renewal options, we estimate the initial lease liability and right-of-use asset will be approximately $100 million on our consolidated balance sheet as of the transition date. As we continue to evaluate the provisions of ASC Topic 842, we are evaluating our existing renewal options within our data center leases and ultimately conclude as to whether we are, or are not, reasonably certain, based on relevant factors that may create an economic incentive for us, to exercise renewal options for each of our data center operating leases. If we determine that we are reasonably certain to exercise all renewal options for each lease, we estimate the initial lease liability and right-of-use asset will be approximately $300 million on our consolidated balance sheet as of the transition date. Subject to our evaluation of whether we are reasonably certain to exercise renewal options for each of our data center leases as well as resolution of other implementation items, we estimate our straight-line rental expense could increase up to $4.0 million within our consolidated statements of operations for each year ended December 31, 2016, 2017, and on a prospective basis for 2018.

In accordance with ASC Topic 842, lessor accounting for our leases remains largely unchanged, 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 will not meet the definition of initial direct costs under the new standard and will be accounted for as a sales and marketing expense in the consolidated statements of operations upon adoption of ASC Topic 842. On a prospective basis, we estimate that the sales and marketing expense in our consolidated statement of operations will increase by approximately $1.5 million for the year ending December 31, 2018, as a result of the narrower definition of initial direct costs.

We are currently evaluating the other impacts of ASC Topic 842 and ASC Topic 606 on our significant accounting policies and consolidated financial statements, such as the adoption of practical expedients and transition methods.

In August 2016, the FASB issued guidance codified in Accounting Standards Update ("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. The standard will be effective for the fiscal year beginning January 1, 2018, and subsequent interim periods. We do not expect the provisions of ASU 2016-15 to have a material impact on our consolidated financial statements.

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

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 the accounting for 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 do not expect the provisions of ASU 2017-12 to have a material impact on our 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 the carrying values of our real estate properties, goodwill, accrued liabilities and performance-based equity compensation plans. We base our estimates on historical experience, current market conditions, and various other assumptions that we

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believe to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could vary under different assumptions or conditions.

Reclassifications

Certain immaterial amounts included in the condensed consolidated financial statements for 2016 have been reclassified to conform to the 2017 financial statement presentation.

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 property 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 $0.8 million and $1.6 million for the three months ended September 30, 2017, and 2016, respectively, and $2.2 million and $3.5 million for the nine months ended September 30, 2017, and 2016, 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

Depreciation expense was $27.0 million and $22.3 million for the three months ended September 30, 2017, and 2016, respectively, and $80.5 million and $63.9 million for the nine months ended September 30, 2017, and 2016, 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.

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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, 2017, or 2016, in the condensed consolidated financial statements.

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, 2017, and December 31, 2016, we had $40.6 million and $41.2 million of goodwill, respectively. 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, 2017, or 2016. During the nine months ended September 30, 2017, goodwill was reduced by $0.5 million due to the receipt of cash from an escrow account associated with an entity acquired at the time of the Company’s initial public offering.

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.

Deferred Costs

Deferred leasing 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. These commissions and other direct and incremental costs incurred to obtain new customer leases are capitalized and 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 deferred costs related to the lease are written off to amortization expense. Deferred leasing costs are included within other assets in the condensed consolidated balance sheets and consisted of the following, net of amortization, as of September 30, 2017, and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Internal sales commissions	$ 17,352	$ 18,748
Third party commissions	12,104	13,643
External legal counsel	776	730
Total	$ 30,232	$ 33,121

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 loan 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

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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, 2017, and 2016, 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 effective portion of the gain or loss on the hedging instruments as a component of accumulated other comprehensive income or loss. Any ineffective portion of a derivative's change in fair value is immediately recognized within net income. 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 6, 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 impairment was recognized related to internal-use software in the condensed consolidated statements of operations for the three and nine months ended September 30, 2017, and 2016.

Revenue Recognition

Our customer arrangements contain lease and nonlease elements. Consideration called for by the arrangement is separated at the inception of the arrangement into the lease and nonlease elements based on the relative fair value of each element. For the lease elements, rental revenue is recognized on a straight line basis over the customer’s lease term. The excess of rents recognized over amounts contractually due pursuant to the underlying leases is recorded as deferred rent receivable within our condensed consolidated balance sheets.

Nonlease elements include power and interconnection services. Power revenue is recognized each month as the power services are delivered to and utilized by our customers. Power services may include non recurring customer set up charges and installation fees that are initially deferred and recognized over the expected performance period. Interconnection services are contracted on a month-to-month basis and revenue is recognized each month as these services are delivered to and utilized by our customers.

Some of our data center leases contain provisions under which our customers reimburse us for a portion of real estate taxes, insurance, common area maintenance, and other recoverable costs. Such customer reimbursements are recognized in the period that the expenses are recognized.

Above-market and below-market lease intangibles that were acquired are amortized on a straight-line basis as decreases and increases, respectively, to rental revenue over the remaining noncancelable term of the underlying leases. For the three months ended September 30, 2017, and 2016, the net effect of amortization of acquired above-market and below-market leases resulted in an increase to rental revenue of $0.2 million and $0.1 million, respectively. For both the nine months ended September 30, 2017, and 2016, the net effect of amortization of acquired above-market and below-market leases resulted in an increase to rental revenue of $0.4 million.

A provision for uncollectible accounts is recorded if a receivable balance relating to contractual rent, rent recorded on a straight-line basis, tenant reimbursements or other billed amounts is considered by management to be uncollectible. At September 30, 2017, and December 31, 2016, the allowance for doubtful accounts totaled $1.0 million and $0.2 million, respectively, on the condensed consolidated balance sheets.

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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.

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, 2017, and December 31, 2016, the amount included in unearned revenue, prepaid rent and other liabilities on the condensed consolidated balance sheets was approximately $1.5 million and $1.4 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 activities of the REIT and its subsidiary pass-through entities. The allocable share of taxable income is included in the income tax returns of its stockholders. The Company is subject to the statutory requirements of the locations in which it conducts 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, 2017, and December 31, 2016, the gross deferred income taxes were not material.

We currently have no liabilities for uncertain income tax positions. The earliest tax year for which we are subject to examination is 2014.

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

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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, 2017 (in thousands):

Market	Land	Buildings and Improvements	Construction in Progress	Total Cost
Boston	$ 5,154	$ 97,991	$ 5,807	$ 108,952
Chicago	5,493	100,469	11,321	117,283
Denver	—	16,730	379	17,109
Los Angeles	28,467	245,734	38,906	313,107
Miami	728	11,435	2	12,165
New York	2,388	131,095	40,188	173,671
Northern Virginia(1)	23,642	297,633	39,910	361,185
San Francisco Bay(2)	31,386	610,928	16,566	658,880
Total	$ 97,258	$ 1,512,015	$ 153,079	$ 1,762,352

(1) On February 23, 2017, we executed a ten-year lease for 25,000 square feet at a new property, which we refer to as DC2, to further expand our data center presence in Washington D.C, within our Northern Virginia market. DC2 is under construction as of September 30, 2017.

(2) On August 29, 2017, we acquired a two-acre land parcel adjacent to our existing Santa Clara campus, with a total real estate cost of $12.2 million. In accordance with the purchase and sale agreement, the seller has committed to pay us $0.3 million over six months to assist them to vacate the property. We will account for the $0.3 million of cash receipts as ancillary operations which will reduce the basis of the land parcel. We plan to build a turn-key data center on the acquired land parcel, which we refer to as SV8, upon the receipt of necessary entitlements.

4. Other Assets

Other assets consisted of the following, net of amortization and depreciation, if applicable for each line item, as of September 30, 2017, and December 31, 2016 (in thousands):

	September 30, 2017	December 31, 2016
Deferred leasing costs	$ 30,232	$ 33,121
Deferred rent receivable	39,555	36,393
Internal-use software	17,248	14,440
Prepaid expenses	8,396	4,390
Corporate furniture, fixtures and equipment	6,377	5,356
Deferred financing costs - revolving credit facility	1,119	1,604
Other	1,112	1,068
Total	$ 104,039	$ 96,372

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5. Debt

A summary of outstanding indebtedness as of September 30, 2017, and December 31, 2016, is as follows (in thousands):

	Interest Rate	Maturity Date	September 30, 2017	December 31, 2016
Revolving credit facility	2.78% and 2.32% at September 30, 2017, and December 31, 2016, respectively	June 24, 2019	$ 19,000	$ 194,000
2020 Senior unsecured term loan(1)	2.83% and 2.60% at September 30, 2017, and December 31, 2016, respectively	June 24, 2020	150,000	150,000
2021 Senior unsecured term loan	2.73% and 2.27% at September 30, 2017, and December 31, 2016, respectively	February 2, 2021	100,000	100,000
2022 Senior unsecured term loan(2)	2.79% and 3.23% at September 30, 2017, and December 31, 2016, respectively	April 19, 2022	200,000	100,000
2023 Senior unsecured notes	4.19% at September 30, 2017, and December 31, 2016, respectively	June 15, 2023	150,000	150,000
2024 Senior unsecured notes	3.91% at September 30, 2017	April 20, 2024	175,000	—
Total principal outstanding		`	794,000	694,000
Unamortized deferred financing costs			(5,213)	(3,550)
Total debt			$ 788,787	$ 690,450

(1) Our Operating Partnership has in place a swap agreement with respect to the 2020 Term Loan (as defined below) 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 2.93% per annum at our current leverage ratio. 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, 2017, is 2.83%. See Note 6 – Derivatives and Hedging Activities.
(2) Our Operating Partnership has in place a swap agreement with respect to the 2022 Term Loan (as defined below) 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 2.98% at our current leverage ratio as of September 30, 2017. 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, 2017, is 2.79%. See Note 6 – Derivatives and Hedging Activities.

Revolving Credit Facility

On February 2, 2016, our Operating Partnership and certain subsidiary co-borrowers entered into the first amendment to the third amended and restated credit agreement (as amended, the “Credit Agreement”) with a group of lenders for which KeyBank National Association acts as the administrative agent. The Credit Agreement maturity date is June 24, 2019, with a one-time extension option, which, if exercised, would extend the maturity date to June 24, 2020. 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 Credit Agreement at initial maturity and certain other customary conditions. The Credit Agreement includes a total commitment of $600 million, providing for a $350 million revolving credit facility, a $150 million unsecured term loan scheduled to mature on June 24, 2020, and a $100 million unsecured term loan scheduled to mature on February 2, 2021. See “2020 Senior Unsecured Term Loan” and “2021 Senior Unsecured Term Loan” below for a discussion of the $150 million and $100 million term loans. The Credit Agreement contains an accordion feature, which allows our Operating Partnership to increase the total commitment from $600 million to $800 million, under specified circumstances, including securing capital from new or existing lenders.

Borrowings under the revolving credit facility bear interest at a variable rate per annum equal to either (i) LIBOR plus 155 basis points to 225 basis points, or (ii) a base rate plus 55 basis points to 125 basis points, each depending on our Operating Partnership’s leverage ratio. At September 30, 2017, our Operating Partnership’s leverage ratio was 23.8% and the interest rate was LIBOR plus 155 basis points.

The total amount available for borrowing under the revolving credit facility is equal to the lesser of $350.0 million or the availability calculated based on our unencumbered asset pool. As of September 30, 2017, the borrowing capacity was $350.0 million. As of September 30, 2017, there were $19.0 million of borrowings outstanding, $3.5 million was

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outstanding under letters of credit, and therefore, $327.5 million remained available for us to borrow under the revolving credit facility.

Our ability to borrow under the Credit Agreement is subject to ongoing compliance with a number of financial covenants and other customary restrictive covenants, including, among others:

- a maximum leverage ratio (defined as total consolidated indebtedness to total gross asset value) of 60%, which, as of September 30, 2017, was 23.8%
- a maximum secured debt ratio (defined as total consolidated secured debt to total gross asset value) of 40%, which, as of September 30, 2017, was 0.0%
- a minimum fixed charge coverage ratio (defined as adjusted consolidated earnings before interest, taxes, depreciation and amortization to consolidated fixed charges) of 1.7 to 1.0, which, as of September 30, 2017, was 7.4 to 1.0; and
- a maximum unhedged variable rate debt ratio (defined as unhedged variable rate indebtedness to gross asset value) of 30%, which, as of September 30, 2017, was 10.3%.

The Credit Agreement ranks pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2022 Term Loan, the 2023 Notes, and the 2024 Notes and contains the same financial covenants and other customary restrictive covenants as those debt instruments. As of September 30, 2017, we were in compliance with all of the financial covenants under the Credit Agreement.

2020 Senior Unsecured Term Loan

On June 24, 2015, in connection with, and pursuant to the terms of, the Credit Agreement, our Operating Partnership and certain subsidiaries entered into a $150 million senior unsecured term loan (the “2020 Term Loan”). The 2020 Term Loan has a five-year term maturing on June 24, 2020. The 2020 Term Loan ranks pari passu with the 2021 Term Loan, the 2022 Term Loan, the 2023 Notes, the 2024 Notes and the Credit Agreement and contains the same financial covenants and other customary restrictive covenants as those debt instruments. As of September 30, 2017, we were in compliance with all of the financial covenants under the 2020 Term Loan.

The borrowings under the 2020 Term Loan bear interest at a variable rate per annum equal to either (i) LIBOR plus 150 basis points to 220 basis points, or (ii) a base rate plus 50 basis points to 120 basis points, each depending on our Operating Partnership's leverage ratio. At September 30, 2017, the Operating Partnership’s leverage ratio was 23.8% and the interest rate was LIBOR plus 150 basis points.

2021 Senior Unsecured Term Loan

On February 2, 2016, pursuant to the terms of the Credit Agreement, we partially exercised the accordion feature and entered into a $100 million senior unsecured term loan (the “2021 Term Loan”). The 2021 Term Loan has a five-year term maturing on February 2, 2021. The 2021 Term Loan ranks pari passu with the 2020 Term Loan, the 2022 Term Loan, the 2023 Notes, the 2024 Notes and the Credit Agreement and contains the same financial covenants and other customary restrictive covenants as those debt instruments. As of September 30, 2017, we were in compliance with all of the financial covenants under the 2021 Term Loan.

The borrowings under the 2021 Term Loan bear interest at a variable rate per annum equal to either (i) LIBOR plus 150 basis points to 220 basis points, or (ii) a base rate plus 50 basis points to 120 basis points, each depending on our Operating Partnership’s leverage ratio. At September 30, 2017, our Operating Partnership’s leverage ratio was 23.8% and the interest rate was LIBOR plus 150 basis points.

2022 Senior Unsecured Term Loan

On April 19, 2017, our Operating Partnership and certain subsidiaries amended and restated the $100 million senior unsecured term loan, originally entered into on January 31, 2014, to (i) exercise the accordion feature to increase the total commitments to $200 million, (ii) extend the maturity of the term loan from January 31, 2019, to April 19, 2022, (iii) amend the accordion feature to allow an increase in total commitments from $200 million to $300 million, under specified circumstances, including securing capital from new or existing lenders, and (iv) explicitly permit the issuance of the 2024 Notes defined below (the “2022 Term Loan”).

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The 2022 Term Loan ranks pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2023 Notes, the 2024 Notes and the Credit Agreement and contains the same financial covenants and other customary restrictive covenants as those debt instruments. As of September 30, 2017, we were in compliance with all of the financial covenants under the 2022 Term Loan.

The borrowings under the 2022 Term Loan bear interest at a variable rate per annum equal to either (i) LIBOR plus 150 basis points to 210 basis points, or (ii) a base rate plus 50 basis points to 110 basis points, each depending on our Operating Partnership's leverage ratio. At September 30, 2017, our Operating Partnership's leverage ratio was 23.8% and the interest rate was LIBOR plus 150 basis points.

2023 Senior Unsecured Notes

On June 15, 2016, our Operating Partnership issued an aggregate principal amount of $150 million, 4.19% senior unsecured notes due June 15, 2023 (the “2023 Notes”), in a private placement to certain accredited investors. The terms of the 2023 Notes are governed by a note purchase agreement, dated June 15, 2016 (the “2023 Note Purchase Agreement”), by and among our Operating Partnership, the Company and the purchasers of the 2023 Notes.

Interest is payable semiannually, on the 15th day of June and December of each year, commencing on December 15, 2016. The 2023 Notes are senior unsecured obligations of our Operating Partnership and are jointly and severally guaranteed by the Company and each of our Operating Partnership's subsidiaries that guarantees indebtedness under our Operating Partnership's Credit Agreement (the “Subsidiary Guarantors”).

Our Operating Partnership may prepay all or a portion of the 2023 Notes upon notice to the holders for 100% of the principal amount so prepaid plus a make-whole premium as set forth in the 2023 Note Purchase Agreement. Upon the occurrence of certain change of control events, holders of the 2023 Notes have the right to require our Operating Partnership to purchase 100% of such holders' 2023 Notes in cash at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

The 2023 Notes rank pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2022 Term Loan, the 2024 Notes and the Credit Agreement. The 2023 Note Purchase Agreement contains the same financial covenants as the Credit Agreement, as described above. In addition, additional financial covenants in the Credit Agreement were automatically incorporated into the 2023 Note Purchase Agreement, and, subject to certain conditions, these additional financial covenants will be deleted, removed, amended or otherwise modified to be more or less restrictive if the analogous covenant in the Credit Agreement is so deleted, removed, amended or otherwise modified. These covenants are subject to a number of exceptions and qualifications set forth in the 2023 Note Purchase Agreement. As of

September 30, 2017, we were in compliance with all of the financial covenants under the 2023 Note Purchase Agreement.

2024 Senior Unsecured Notes

On April 20, 2017, our Operating Partnership issued an aggregate principal amount of $175 million, 3.91% senior unsecured notes due April 20, 2024 (the “2024 Notes”), in a private placement to certain accredited investors. The terms of the 2024 Notes are governed by a note purchase agreement, dated April 20, 2017 (the “2024 Note Purchase Agreement”), by and among our Operating Partnership, the Company and the purchasers of the 2024 Notes.

Interest is payable semiannually, on the 15th day of June and December of each year, commencing on December 15, 2017. The 2024 Notes are senior unsecured obligations of our Operating Partnership and are jointly and severally guaranteed by the Company and each of the Subsidiary Guarantors.

Our Operating Partnership may prepay all or a portion of the 2024 Notes upon notice to the holders for 100% of the principal amount so prepaid plus a make-whole premium as set forth in the 2024 Note Purchase Agreement. Upon the occurrence of certain change of control events, holders of the 2024 Notes will have the right to require our Operating Partnership to purchase 100% of such holders’ 2024 Notes in cash at a purchase price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of repurchase.

The 2024 Notes rank pari passu with the 2020 Term Loan, the 2021 Term Loan, the 2022 Term Loan, the 2023 Notes and the Credit Agreement. The 2024 Note Purchase Agreement contains the same financial covenants as the Credit

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Agreement, as described above. In addition, certain additional financial covenants in the Credit Agreement were automatically incorporated into the 2024 Note Purchase Agreement, and, subject to certain conditions, these additional financial covenants will be deleted, removed, amended or otherwise modified to be more or less restrictive if the analogous covenant in the Credit Agreement is so deleted, removed, amended or otherwise modified. These covenants are subject to a number of exceptions and qualifications set forth in the 2024 Note Purchase Agreement. As of September 30, 2017, we were in compliance with all of the financial covenants under the 2024 Note Purchase Agreement.

Debt Maturities

The following table summarizes the amount of our outstanding debt as of September 30, 2017, based on when such debt currently becomes due (in thousands):

Year Ending December 31,	
2017	$ —
2018	—
2019	19,000
2020	150,000
2021	100,000
Thereafter	525,000
Total principal outstanding	794,000
Unamortized deferred financing costs	(5,213)
Total debt, net	$ 788,787

6. Derivatives and Hedging Activities

On April 9, 2015, we entered into a $75 million forward starting five-year interest rate swap agreement to protect against adverse fluctuation in interest rates. The swap reduces our exposure to variability in cash flows relating to interest payments on $75 million of one-month LIBOR variable rate debt and effectively fixes the interest rate at approximately 2.93% per annum. Also, on February 3, 2014, we entered into a five-year interest rate swap agreement that reduces our exposure to variability in cash flows relating to interest payments on $100 million of outstanding one-month LIBOR variable rate debt and effectively fixes the interest rate at approximately 3.23% per annum. On April 21, 2017, we terminated $50 million of this $100 million five-year interest rate swap, resulting in a remaining $50 million interest rate swap effective through February 2, 2019, at approximately 2.98% per annum. Both interest rate swap agreements were designated for hedge accounting.

Risk Management Objective of Using Derivatives

We are exposed to certain risks arising from both our business operations and economic conditions. We principally manage our exposures to a wide variety of business and operational risks through management of our core business activities. We manage economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of our debt funding and the use of derivative financial instruments. Specifically, we enter into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known or uncertain cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used to manage differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments principally related to our investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

Our objectives in using interest rate derivatives are to reduce variability in interest expense and to manage our exposure to adverse interest rate movements. To accomplish this objective, we primarily use interest rate swaps as part of our interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

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The effective portion of changes in the fair value of derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income or loss on the condensed consolidated balance sheets and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. The amounts recorded in other comprehensive income or loss related to the unrealized gain or loss on derivative contracts were gains of less than $0.1 million and $0.8 million for the three months ended September 30, 2017, and 2016, respectively, and were a gain of less than $0.1 million and a loss of $3.6 million for the nine months ended September 30, 2017, and 2016, respectively. The amounts reclassified from other comprehensive income or loss to interest expense on the condensed consolidated statements of operations were $0.1 million and $0.4 million for the three months ended September 30, 2017, and 2016, respectively, and were $0.6 million and $1.3 million for the nine months ended September 30, 2017, and 2016, respectively. Any ineffective portion of the change in fair value of the derivatives is recognized directly in net income. During the three and nine months ended September 30, 2017, and 2016, we did not record any amount in net income related to derivatives as there was no hedge ineffectiveness.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. During the subsequent twelve months, beginning October 1, 2017, we estimate that $0.1 million will be reclassified as an increase to interest expense.

Derivatives are recorded at fair value in our condensed consolidated balance sheets in other assets or unearned revenue, prepaid rent and other liabilities, as applicable. We do not net our derivative position by counterparty for purposes of balance sheet presentation and disclosure. We had zero and $0.4 million in derivative liabilities recognized in unearned revenue, prepaid rent and other liabilities in our condensed consolidated balance sheets as of September 30, 2017, and December 31, 2016, respectively. We also had $0.5 million and $0.3 million in derivative assets recognized in other assets in our condensed consolidated balance sheets as of September 30, 2017, and December 31, 2016, respectively.

7. Stockholders' Equity

On October 16, 2017, we announced that we intend to redeem all 4,600,000 shares of our outstanding 7.25% Series A cumulative redeemable preferred stock ("Series A Preferred Stock") on December 12, 2017. The Series A Preferred Stock will be redeemed for $25.00 per share, plus all accrued and unpaid dividends in an amount equal to $0.292014 per share, for a total payment of $25.292014 per share.

We declared the following dividends per share on our Series A Preferred Stock and common stock during the nine months ended September 30, 2017:

Declaration Date	Record Date	Payment Date

			Series A Preferred Stock		Common Stock
March 9, 2017	March 31, 2017	April 17, 2017	$ 0.4531	(1)	$ 0.80
May 30, 2017	June 30, 2017	July 17, 2017	0.4531	(2)	0.90
September 1, 2017	September 29, 2017	October 16, 2017	0.4531	(3)	0.90
			$ 1.3593		$ 2.60

(1) Dividend covers the period from January 15, 2017, to April 14, 2017.
(2) Dividend covers the period from April 15, 2017, to July 14, 2017.
(3) Dividend covers the period from July 15, 2017, to October 14, 2017.

8. Noncontrolling Interests — Operating Partnership

Noncontrolling interests represent the limited partnership interests in our Operating Partnership held by individuals and entities other than CoreSite Realty Corporation. The current holders of common Operating Partnership units are eligible to have the common Operating Partnership units redeemed for cash or common stock on a one-for-one basis, at our option.

In connection with the issuance of our Series A Preferred Stock on December 12, 2012, our Operating Partnership issued 4,600,000 7.25% Series A cumulative redeemable preferred Operating Partnership units to us. Preferred Operating Partnership units rank senior to the common Operating Partnership units held by both us and noncontrolling interests, and will no longer be outstanding following the redemption of our Series A Preferred Stock.

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The following table shows the common ownership interests in our Operating Partnership as of September 30, 2017, and December 31, 2016:

	September 30, 2017			December 31, 2016		
	Number of Units	Percentage of Total		Number of Units	Percentage of Total	
CoreSite Realty Corporation	33,824,829	71.0	%	33,376,568	70.7	%
Noncontrolling interests	13,836,336	29.0		13,851,347	29.3	
Total	47,661,165	100.0	%	47,227,915	100.0	%

For each share of common stock issued by us, our Operating Partnership issues to us an equivalent common Operating Partnership unit. During the nine months ended September 30, 2017, we issued 448,261 shares of common stock related to employee compensation arrangements and therefore an equivalent number of common Operating Partnership units were issued to us by our Operating Partnership.

Holders of common Operating Partnership units of record as of September 30, 2017, received quarterly distributions of $0.90 per unit, payable in correlation with declared dividends on common stock.

The redemption value of the noncontrolling interests at September 30, 2017, was $1.5 billion based on the closing price of the Company's common stock of $111.90 per share on that date.

9. Equity Incentive Plan

Our Board of Directors adopted and, with the approval of our stockholders, amended the 2010 Equity Award Incentive Plan (as amended, the "2010 Plan"). The 2010 Plan is administered by the Compensation Committee of our Board of Directors. Awards issuable under the 2010 Plan include common stock, stock options, restricted stock, stock appreciation rights, dividend equivalents, Operating Partnership units and other incentive awards. We have reserved a total of 6,000,000 shares of our common stock for issuance pursuant to the 2010 Plan, which may be adjusted for changes in our capitalization and certain corporate transactions. To the extent that an award expires, terminates or lapses, or an award is settled in cash without the delivery of shares of common stock to the participant, then any unvested shares subject to the award will be available for future grant or sale under the 2010 Plan. Shares of restricted stock that are forfeited or repurchased by us pursuant to the 2010 Plan may again be awarded under the 2010 Plan. The payment of dividend equivalents in cash in conjunction with any outstanding awards will not be counted against the shares available for issuance under the 2010 Plan.

As of September 30, 2017, 3,048,337 shares of our common stock were available for issuance pursuant to the 2010 Plan.

Stock Options

Stock option awards are granted with an exercise price equal to the closing market price of the Company's common stock on the date of grant. The fair value of each option granted under the 2010 Plan is estimated on the date of grant using the Black-Scholes option-pricing model. The fair values are amortized on a straight-line basis over the vesting periods. Stock options have not been granted since the year ending December 31, 2013.

The following table sets forth stock option activity under the 2010 Plan for the nine months ended September 30, 2017:

	Number of Shares Subject to Option	Weighted-Average Exercise Price
Options outstanding, December 31, 2016	265,550	$ 22.96
Granted	—	—
Exercised	(197,761)	24.37
Forfeited	—	—
Expired	—	—
Options outstanding, September 30, 2017	67,789	$ 19.12

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The following table sets forth the number of shares subject to options that are unvested as of September 30, 2017, and the fair value of these options at the grant date:

	Number of Shares Subject to Option	Weighted-Average Fair Value at Grant Date
Unvested balance, December 31, 2016	16,323	$ 9.99
Granted	—	—
Forfeited	—	—
Vested	(16,323)	9.99
Unvested balance, September 30, 2017	—	$ —

Restricted Stock Awards and Units

Restricted stock awards and restricted stock units, or RSUs, are granted with a fair value equal to the closing market price of the Company's common stock on the date of grant. The principal difference between restricted stock awards and RSUs is that RSUs are not shares of our common stock and do not have any of the rights or privileges thereof, including voting rights. On the applicable vesting date, the holder of an RSU becomes entitled to a share of common stock. The restricted stock awards and RSUs are amortized on a straight-line basis to expense over the vesting period. The following table sets forth the number of unvested restricted stock awards and RSUs and the weighted-average fair value of these awards at the date of grant:

	Restricted Stock Awards and Units	Weighted-Average Fair Value at Grant Date
Unvested balance, December 31, 2016	323,641	$ 53.84
Granted	139,134	86.08
Forfeited	(33,195)	63.86
Vested	(137,663)	44.34
Unvested balance, September 30, 2017	291,917	$ 70.62

As of September 30, 2017, total unearned compensation on restricted stock awards and RSUs was approximately $16.5 million, and the weighted-average vesting period was 2.5 years.

Performance Stock Awards

We grant long-term incentives to members of management in the form of performance-based restricted stock awards (“PSAs”) under the 2010 Plan. The number of PSAs earned is based on our achievement of relative total shareholder return (“TSR”) measured versus the MSCI US REIT Index over a three-year performance period and ranges between 25% and 175% of the target number of shares for PSAs granted in 2015, 2016, and 2017. The PSAs are granted at the maximum percentage of target and are retired annually to the extent we do not meet the maximum relative TSR performance threshold versus the MSCI US REIT Index. The PSAs are earned upon TSR achievement measured both annually and over the full three-year performance period. The PSAs have a service condition and will be released at the end of the three-year performance period, to the extent earned, provided that the holder continues to be employed by or otherwise in service of the Company at the end of the three-year performance period. The PSAs are amortized on a straight-line basis to expense over the vesting period. Holders of the PSAs are entitled to dividends on the PSAs, which are accrued and paid in cash at the end of the three-year performance period.

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The following table sets forth the number of unvested PSAs and the weighted-average fair value of these awards at the date of grant:

	Performance-Based Restricted Stock Awards			Weighted-Average Fair Value at Grant Date
	Minimum	Maximum	Target	
Unvested balance, December 31, 2016	44,835	167,725	113,976	$ 54.24
Granted	7,210	50,472	28,841	105.50
Performance adjustment (1)	62,841	—	23,725	—
Forfeited	(5,674)	(16,836)	(11,255)	79.09