

CoreSite Realty Corp
Form 10-K
February 25, 2013
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For The Fiscal Year Ended December 31, 2012

or

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)

Edgar Filing: CoreSite Realty Corp - Form 10-K

Maryland (State or other jurisdiction)	27-1925611 (I.R.S. Employer
of incorporation or organization)	Identification No.)
1050 17th Street, Suite 800 Denver, CO (Address of principal executive offices)	80265 (Zip Code)

(866) 777-2673

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange On Which Registered
Common Stock, \$0.01 par value per share	New York Stock Exchange
7.25 % Series A Cumulative Redeemable	New York Stock Exchange
Preferred Stock, \$0.01 par value per share	

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulations S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Edgar Filing: CoreSite Realty Corp - Form 10-K

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting 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)

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

The aggregate market value of common equity held by non-affiliates of the registrant was approximately \$360.9 million as of June 29, 2012, the last trading day of the registrant's most recently completed second fiscal quarter. For purposes of the foregoing calculation, all directors and executive officers of the registrant and holders of more than 5% of the registrant's common equity are assumed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 22, 2013, there were 21,202,610 shares of the registrant's Common Stock, \$0.01 par value per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be issued in conjunction with the registrant's 2013 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 31, 2012, are incorporated by reference in Part III of this report.

Table of Contents

Table of Contents

	Page
<u>PART I</u>	4
<u>ITEM 1. BUSINESS</u>	4
<u>ITEM 1A. RISK FACTORS</u>	18
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	35
<u>ITEM 2. PROPERTIES</u>	35
<u>ITEM 3. LEGAL PROCEEDINGS</u>	35
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	35
<u>PART II</u>	36
<u>ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	36
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	38
<u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	40
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	46
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	47
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	74
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	74
<u>ITEM 9B. OTHER INFORMATION</u>	74
<u>PART III</u>	75
<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	75
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	75
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	75
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	75
<u>ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	75
<u>PART IV</u>	76
<u>ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	76
<u>SIGNATURES</u>	78
Exhibit 21.1	
Exhibit 23.1	
Exhibit 31.1	
Exhibit 31.2	
Exhibit 32.1	
Exhibit 32.2	

Table of Contents

Cautionary Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (this Annual Report), together with other statements and information publicly disseminated by our company contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA), namely Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the PSLRA and include this statement for purposes of complying with these safe harbor provisions.

In particular, statements pertaining to our capital resources, portfolio performance and results of operations contain forward-looking statements. You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, intends, plans, pro forma or anticipates or the negative of these words and phrases or similar words or phrases that are predictions of or indicate future events or trends and that do not relate solely to historical matters. You can also identify forward-looking statements by discussions of strategy, plans or intentions. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements: (i) the geographic concentration of our data centers in certain markets and any adverse developments in local economic conditions or the demand for data center space in these markets; (ii) fluctuations in interest rates and increased operating costs; (iii) difficulties in identifying properties to acquire and completing acquisitions; (iv) the significant competition in our industry and an inability to lease vacant space, renew existing leases or release space as leases expire; (v) lack of sufficient customer demand to realize expected returns on our investments to expand our property portfolio; (vi) decreased revenue from costs and disruptions associated with any failure of our physical infrastructure or services; (vii) our ability to lease available space to existing or new customers; (viii) our failure to obtain necessary outside financing; (ix) our failure to qualify or maintain our status as a REIT; (x) financial market fluctuations; (xi) changes in real estate and zoning laws and increases in real property tax rates; (xii) delays or disruptions in third-party network connectivity; (xiii) service failures or price increases by third party power suppliers; (xiv) inability to renew net leases on the data center properties we lease; and (xv) other factors affecting the real estate industry generally.

In addition, important factors that could cause actual results to differ materially from the forward-looking statements include the risk factors in Item 1A. Risk Factors and elsewhere in this Annual Report. New risks and uncertainties arise from time to time, and we cannot predict those events or how they might affect us. We assume no obligation to update any forward-looking statements after the date of this Annual Report, except as required by applicable law. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

When we use the terms we, us, our, the Company and our company in this Annual Report, we are referring to CoreSite Realty Corporation, a Maryland corporation, together with our consolidated subsidiaries, including CoreSite, L.P., a Delaware limited partnership of which we are the sole general partner and which we refer to as our Operating Partnership.

Table of Contents

PART I

ITEM 1. BUSINESS

The Company

CoreSite Realty Corporation provides data center solutions to more than 750 of the world's leading carriers and mobile operators, content and cloud providers, media and entertainment companies and global enterprises. Across 14 high-performance data center campuses in nine North America markets, CoreSite connects customers to help them grow their business, run performance-sensitive applications and secure their crucial data devices.

We formed CoreSite Realty Corporation as a Maryland corporation on February 17, 2010. While we initially elected to be treated as an S corporation for federal income tax purposes, we terminated our S corporation status shortly before completion of our initial public offering of common stock on September 23, 2010 (the "IPO"), thereby ending the S corporation tax year, and have elected to qualify as a real estate investment trust ("REIT") for federal income tax purposes commencing with our partial taxable year ending on December 31, 2010. We also conduct certain activities through our taxable REIT subsidiary ("TRS"), CoreSite Services, Inc., a Delaware corporation.

At December 31, 2012, we updated the nomenclature used to reference our property portfolio. The table below reconciles between the nomenclature used in previous filings with the nomenclature found in this Annual Report:

New Property Name	Previous Property Name
SV1	55 S. Market
SV2	1656 McCarthy
Santa Clara Campus	
- SV3	2901 Coronado
- SV4	2972 Stender
- SV5	2900 Stender
BO1	70 Innerbelt
NY1	32 Avenue of the Americas
VA1 & VA2	12100 Sunrise Valley
DC1	1275 K Street
CH1	427 S. LaSalle
One Wilshire Campus	
- LA1	One Wilshire
- LA2	900 N. Alameda
MI1	2115 NW 22nd Street
DE1	910 15th Street
DE2	639 E. 18th Avenue

Our Initial Public Offering and Formation

Edgar Filing: CoreSite Realty Corp - Form 10-K

On September 28, 2010, we closed on our IPO and completed the following transactions:

- We issued 19,435,000 shares of our common stock in exchange for proceeds of \$289.2 million, net of underwriter discounts and commissions of \$21.8 million;
- As part of our formation transactions, our Operating Partnership acquired 100% of the ownership interests in the various entities that owned our Predecessor, comprised of the real estate activities and interconnection services of four of our operating properties, SV2, NY1, VA1 and BO1, as well as the Santa Clara Campus, from certain real estate funds (the Funds) affiliated with The Carlyle Group (Carlyle), in exchange for 14,797,755 Operating Partnership units, or \$236.8 million in value based on the \$16.00 per share IPO price for our common stock;
- Our Operating Partnership also acquired 100% of the ownership interests in the entities that owned the CoreSite Acquired Properties, comprised of the continuing real estate operations at SV1, LA1, LA2, DC1, CH1, MI1 and 1050 17th Street, a non-revenue generating property that we lease for our corporate headquarters, as well as CoreSite, LLC, our management company, from the Funds and their affiliates in exchange for 19,802,245 Operating Partnership units, or \$316.8 million in value based on the \$16.00 per share IPO price;
- Concurrently with the closing of the IPO, we used a portion of the cash proceeds from the IPO to purchase from the Funds and their affiliates 8,435,000 Operating Partnership units for an aggregate purchase price of \$125.5 million; and
- We purchased an additional 11,000,000 newly issued Operating Partnership units from our Operating Partnership for a purchase price of \$163.7 million.

Table of Contents

Our Business

We are a fully integrated, self-administered, and self-managed real estate investment trust. Through our controlling interest in our Operating Partnership, we are engaged in the business of ownership, acquisition, construction and management of strategically located data centers in some of the largest and fastest growing data center markets in the United States, including Los Angeles, the San Francisco Bay and Northern Virginia areas (including Washington DC), Chicago, Boston, New York City, Miami and Denver.

Data centers are highly specialized and secure buildings that house networking, storage and communications technology infrastructure, including servers, storage devices, switches, routers and fiber optic transmission equipment. These buildings are designed to provide the power, cooling and network connectivity necessary to efficiently operate this mission-critical equipment. Data centers located at points where many communications networks converge can also function as interconnection hubs where customers are able to connect to multiple networks and exchange traffic with each other. Our data centers feature advanced efficient power, cooling and security systems, including twenty-four hours a day, seven days a week security staffing, and many are points of network interconnection that build the ecosystems our customers need to meet their own competitive challenges and business goals. We believe we have the flexibility and scalability to satisfy the full spectrum of our customers' growth requirements and corresponding data center needs by providing data center space ranging in size from an entire building or large dedicated suite to a cage or cabinet. We work with a broad and growing customer base of over 750 customers that we arrange into our five key verticals as follows: networks and mobility, cloud and IT service providers, digital content and multimedia, systems integrators and managed services providers and enterprise customers of all sizes with a variety of space, power and interconnection needs. We believe our operational flexibility allows us to effectively match our data center space to its optimal use, depending on customer demand, regional economies and property characteristics.

The first data center in our portfolio was purchased by our Predecessor in 2000 and since then we have continued to acquire, develop and operate these types of facilities. Our properties are self-managed, including with respect to construction project management in connection with our development initiatives. As of December 31, 2012, our property portfolio included 14 operating data center facilities and multiple development projects, which collectively comprise over 2.7 million net rentable square feet (NRSF), of which over 1.2 million NRSF is existing data center space.

2012 and Recent Developments

On February 7, 2012, we repaid a \$25.0 million senior mortgage loan secured by CH1.

On April 19, 2012, we acquired a leasehold interest in DE1 and DE2 for \$2.6 million, net of cash received, through the acquisition of Comfluent, a Denver, Colorado based data center operator.

On October 9, 2012, we exercised our two-year option extending the maturity date to October 9, 2014, on our \$59.8 million mortgage loan secured by SV1.

Edgar Filing: CoreSite Realty Corp - Form 10-K

On December 12, 2012, the Company issued 4,600,000 shares of 7.25% Series A Cumulative Redeemable Preferred Stock for total net proceeds, after underwriting discounts and offering expenses, of \$110.6 million, including the proceeds from the exercise of the full underwriters over-allotment option.

During the year ended December 31, 2012, we completed and placed into service 139,671 NRSF in our VA1, SV4, and CH1 properties. At December 31, 2012, we had 94,650 NRSF under construction with completion expected in 2013.

On January 3, 2013, we amended and restated our revolving credit facility, which among other things, extended the maturity date from December 2014 to January 2018 (including the one-year extension option), and increased our borrowing capacity under the credit facility from \$225.0 million to \$355.0 million. The new credit facility is unsecured, compared to the prior facility which was secured by five properties.

On February 7, 2013, we acquired a 283,000 square-foot building, which we refer to as NY2, on 10 acres of land in Secaucus, New Jersey. We expect to invest approximately \$65.0 million in 2013 that includes acquiring the facility, developing the powered shell, and completing the initial phase of development, consisting of 65,000 NRSF.

Table of Contents

Our Competitive Strengths

We believe the following key competitive strengths position us to efficiently scale our business, capitalize on the growing demand for data center space and interconnection services, and thereby grow our cash flow.

High Quality Data Center Portfolio. As of December 31, 2012, our property portfolio included 14 state-of-the-art data center facilities and multiple development projects. Our data centers feature advanced efficient power and cooling infrastructure to support our customers performance-sensitive applications with additional power capacity to support continued growth. Many of our data centers support interconnected communities of network and mobility services providers, cloud services providers, digital content organizations, systems integrators, managed service providers and enterprise customers that rely on interconnection and colocation. We believe these communities enhance our tenants business operations, reduce operational risks and increase the attractiveness of our buildings. Many providers in our facilities can leverage our sites as revenue opportunities by offering their services directly to other customers within our data centers, while enterprises, can reduce their total cost of operations by directly connecting to service providers in the same data center in a cost effective manner.

Significant Network Density. Many of our data centers are points of dense network interconnection that provide our customers with valuable networking opportunities that help us retain existing customers and attract new ones. We believe that the extensive diverse network connectivity options at these data centers provide us with a significant competitive advantage because network-dense facilities offering high levels of connectivity typically take many years to establish. Our portfolio houses over 275 unique network service providers. To facilitate access to these networking opportunities, we provide services enabling interconnection among our data center customers, including private cross connections and publicly switched peering services. Currently, we manage over 15,000 interconnections across our portfolio.

We own and operate the Any2 Internet Exchange, which is the largest internet exchange on the west coast with over 250 members. We provide direct access to Any2 switches from each of our data centers, with regional exchanges accessible in California and the Northeast (Boston, New York, Washington DC). Multiple switches feature a dual core set-up for increased reliability and improved network recovery.

Expansion Capability. By leasing readily available data center space and expanding our operating data center space, we anticipate that we will be able to meet the growing demand from our existing and prospective customers. At December 31, 2012, our data center facilities have approximately 278,120 NRSF of space readily available for lease. Including NY2, which was acquired February 7, 2013 and our portfolio at December 31, 2012, we have the ability to expand our operating data center square footage by approximately 99.7%, or approximately 1.2 million NRSF, through the development of (1) 94,650 NRSF space under construction as of December 31, 2012, (2) 216,250 NRSF planned to commence development during 2013 at NY2 and on land that we currently own at VA2 and our Santa Clara Campus, and 3) 894,286 NRSF at multiple facilities, as shown in the development table on page 9, that may be developed over time based on market supply, demand and our financial capabilities.

Facilities in Key Markets. Our portfolio is concentrated in some of the largest and most important U.S. metropolitan markets and we expect to continue benefitting from this proximity as customers seek new, high-quality data center space and interconnections within our markets, which are many of the key North American network, financial, cloud and commercial hubs. Our data centers are located in Los Angeles, the San Francisco Bay and Northern Virginia areas (including Washington DC), Chicago, Boston, New York City, Miami and Denver. These locations offer access to the abundant power required to effectively run the facilities. Many of our facilities are also situated in close proximity to a concentration of key businesses and corporations, driving demand for our data center space and interconnection services, which help these organizations to reach their potential customers, enabling them to meet their short- and long-term business goals.

Flexibility and Scalability. We believe our ability to be both flexible and scalable is a key differentiator for our company. We offer many space, power, and interconnection options that allow customers to select the options that meet their needs. We believe that many of our customers have chosen us because we offer space and power flexibility and numerous interconnection services to accommodate their growth. We have a compelling combination of presence in most of the top data center hubs with ability to meet customers' growing capacity requirements within those markets. We offer diverse connectivity options throughout all of the data center campuses in our portfolio, and a healthy and growing community of network and mobility, cloud and IT service providers selling value added services. Also, we lease space to enterprises across multiple sub-verticals like financial, healthcare, legal, manufacturing, and government, who want to securely and cost-effectively buy these services as needed.

Table of Contents

Diversified Customer Base. We have a diverse, global customer base of over 750 customers, which we believe is a reflection of our strong reputation and proven track record, as well as our customers' trust in our ability to house their mission-critical applications and vital communications technology and the flexibility and scalability to meet their unique needs. As of December 31, 2012, one customer represented 7.9% of our annualized rent and our top ten customers represented 31.9% of our annualized rent. We group our customers into vertical market segments, referred to as verticals, with similar businesses that have specific and specialized needs. Our diverse customer base spans many industries and includes the following five verticals:

- Networks and Mobility: domestic and international telecommunications carriers, ISPs (Internet Service Providers) and CDNs (Content Delivery Networks)
- Digital Content and Multimedia
- Cloud and IT Service Providers
- Systems Integrators and Managed Services Providers
- Enterprises: financial, healthcare, educational institutions, government agencies, manufacturing, and professional services

Experienced Management Team. Our management team has significant experience in the real estate and communications industry, specifically the colocation and data center market. Notably, our Chief Executive Officer has over 24 years of experience in the acquisition, financing and operation of commercial real estate, which includes over 13 years in the data center industry and eight years at publicly traded REITs. Additionally, our Chief Financial Officer has approximately 25 years of financial experience, including five years with a publicly traded REIT where he served as Managing Director and Chief Accounting Officer and 18 years in public accounting with significant history as a partner with KPMG and Arthur Andersen, where he served as the Partner in charge of the real estate and financial services practices in Denver, Colorado. Our Chief Operating Officer and our Senior Vice President of Sales each bring over 25 years of successful go-to-market strategy development and tactical execution within the communications industry and specifically within the data center sector. Also, our General Counsel has over 13 years of experience, including seven years with a publicly traded REIT and three years in private practice in the communications industry.

Balance Sheet Positioned to Fund Continued Growth. As of December 31, 2012, we had approximately \$174.8 million of total long-term debt and preferred stock equal to approximately 18.4% of the undepreciated book value of our total assets and we had \$8.1 million of cash available on our balance sheet. Upon amending and restating our credit facility, we had the ability to borrow \$355.0 million, subject to satisfying certain financial covenants which we currently meet. We believe this available capital will be sufficient to fund our general corporate needs, including the completion of 94,650 NRSF of data center space under construction as of December 31, 2012, and the development of an additional 216,250 NRSF of space prior to December 31, 2013.

Business and Growth Strategies

Our business objective is to continue growing our position as a provider of strategically located data center space in North America. The key elements of our strategy are as follows:

Increase Cash Flow of In-Place Data Center Space. We actively manage and lease our properties to increase cash flow by:

- *Increasing Interconnection in our Facilities.* During the year ended December 31, 2012, we increased our customer count to over 750 customers compared to approximately 700 customers as of December 31, 2011, an increase of approximately 7%. As more customers locate in our facilities, it benefits their business partners and customers to colocate with CoreSite in order to gain the full economic and performance benefits of our interconnection services. This ecosystem of customers continues to drive new and existing customer growth, and in turn, increases the volume of interconnection services and the number of value-add power services such as breakerred AC and DC primary and redundant power.
- *Leasing of Available Space.* We have the ability to increase both our revenue and our revenue per square foot by leasing additional space, power and interconnection services to new and existing data center customers. As of December 31, 2012, substantially all of our data center facilities had space and power available to offer our customers the ability to increase their square footage under lease as well as the amount of power they use per square foot. In total, our existing data center facilities have 278,120 NRSF of space currently available for lease. We believe this space, together with available power, enables us to generate incremental revenue within our existing data center footprint.

Table of Contents

Capitalize on Embedded Expansion Opportunities. Including the space currently under construction or in preconstruction at December 31, 2012, vacant space and land targeted for future development and NY2, which was acquired February 7, 2013, we own land and buildings sufficient to develop approximately 1.2 million square feet of data center space. Our development opportunities include ground-up construction on vacant parcels of land that we currently own and leveraging existing in-place infrastructure and entitlements in currently operating properties or campuses. In many cases we are able to strategically deploy capital by developing space in incremental phases to meet customer demand.

As of December 31, 2012, the largest projects in our development portfolio included 198,000 NRSF at VA2 and 305,987 NRSF at the Santa Clara Campus, a 15.75-acre property housing seven buildings in Santa Clara, California. The Santa Clara Campus currently includes:

- SV3, a 50,000 NRSF fully leased data center,

- SV4, a 101,000 NRSF data center of which 69,503 NRSF was completed as of December 31, 2012, and 31,497 NRSF which was under construction as of December 31, 2012, with an anticipated completion date in first quarter of 2013;

- SV5, a 101,250 NRSF development project that is expected to commence in the first quarter 2013; and

- a 9.1 acre development site with five buildings consisting of 173,240 NRSF of entitled data center space which we plan to develop in 2014 and beyond based upon market supply and demand. In addition, we have approximately 71,000 NRSF of office and light-industrial space in our operating portfolio which we may develop into data center space. This development site currently provides us with the ability to develop additional data center space in one of the fastest growing and most important data center markets in North America.

Following our acquisition of NY2 on February 7, 2013, we added 283,000 NRSF to our development portfolio, relating to the development of NY2.

Table of Contents

The following table summarizes the development opportunities throughout our portfolio, each as of December 31, 2012, with the exception of NY2, which was acquired February 7, 2013.

Development Opportunities (in NRSF)

Facilities	Under Construction(1)	Near-Term(2)	Long-Term(3)	Total
Los Angeles				
One Wilshire Campus				
LA1			7,309	7,309
LA2	19,250		246,933	266,183
San Francisco Bay				
Santa Clara Campus(4)	31,497	101,250	173,240	305,987
Northern Virginia				
VA2(5)		50,000	148,000	198,000
Boston				
BO1	23,663		87,650	111,313
Chicago				
CH1	20,240			20,240
New York				
NY2(6)		65,000	218,000	283,000
Miami				
MI1			13,154	13,154
Total Facilities	94,650	216,250	894,286	1,205,186

(1) Reflects NRSF at a facility for which the initiation of substantial development activities to prepare the property for its intended use has commenced prior to December 31, 2012.

(2) Reflects NRSF at a facility for which the initiation of substantial development activities to prepare the property for its intended use is planned to commence after December 31, 2012, but prior to December 31, 2013.

(3) The long-term NRSF shown is our current estimate based on engineering drawings and required support space and is subject to change based on final demising of the space.

(4) We plan and are entitled to develop approximately 306,000 NRSF of data center space at this campus. Incremental to the 306,000 NRSF, we have approximately 71,000 NRSF of office and light-industrial space in our operating portfolio which we may develop into data center space and we plan to develop an additional 116,000 NRSF of data center space at this campus upon our receipt of the necessary entitlement.

(5) We plan and are entitled to develop approximately 198,000 NRSF, comprised of data center, supporting infrastructure and general building support space, which is in addition to the leased and vacant NRSF existing at the property. We expect 50,000 NRSF to commence development after December 31, 2012, but prior to December 31, 2013.

(6) We plan to develop approximately 283,000 of data center space at this property, of which 65,000 NRSF will commence development after December 31, 2012, but prior to December 31, 2013.

Table of Contents

Selectively Pursue Acquisition and Development Opportunities in New and Existing Markets. We opportunistically evaluate opportunities to acquire or develop data center space with abundant power and/or dense points of interconnection in key markets that will expand our customer base and broaden our geographic footprint. Such acquisitions may entail subsequent development which requires significant capital expenditures. We will also continue to implement the hub-and-spoke strategy that we have successfully deployed in our three largest markets, namely the Los Angeles, San Francisco Bay and Northern Virginia markets. In these markets, we have extended our data center footprint by connecting our newer facilities, the spokes, to our established data centers, our hubs, which allows our customers leasing space at the spokes to leverage the significant interconnection capabilities of our hubs. In order to deploy our hub-and-spoke strategy, we typically rely on third-party providers of network connectivity to establish highly reliable network connectivity within and between certain of our data centers.

Leverage Existing Customer Relationships and Reach New Customers. Our strong customer and industry relationships, combined with our national footprint and sales force, afford us insight into the size, timing and location of customers planned growth. We have historically been successful in leveraging this market visibility to expand our footprint and customer base in existing and new markets. We intend to continue to strengthen and expand our relationships with existing customers and to further grow and diversify our customer base by targeting growing customers and segments, such as domestic and international telecommunications carriers, content and media entertainment providers, cloud providers, enterprise customers, financial and educational institutions and government agencies.

Our Portfolio

As of December 31, 2012, including NY2, acquired on February 7, 2013, our property portfolio included 14 operating data center facilities and multiple development sites. Our operating portfolio and development sites collectively comprise over 2.7 million NRSF, of which approximately 1.2 million NRSF is existing data center space. Our operating properties include approximately 358,929 NRSF of space readily available for lease, of which 278,120 NRSF is available for lease as data center space. Including the space currently under construction or in preconstruction at December 31, 2012, vacant space and land targeted for future development and NY2, we own land and buildings sufficient to develop approximately 1.2 million square feet of incremental data center space. We expect that this development potential plus any potential expansion into new markets will enable us to accommodate existing and future customer demand and position us to significantly increase our cash flows. We intend to pursue development projects and expansion into new markets when we believe those opportunities support the additional supply in those markets.

The following table provides an overview of our new and expansion data center leasing activity (in NRSF) during the year ended December 31, 2012:

	December 31, 2012	Three Months Ended:		March 31, 2012
		September 30, 2012	June 30, 2012	
New and expansion leases signed but not yet commenced at beginning of period	12,941	41,545	32,436	25,571
Adjustments(1)	544			
New and expansion leases signed during the period(2)	156,704	11,387	26,290	37,563
New and expansion leases signed during the period which have commenced	(14,414)	(5,699)	(8,157)	(15,195)
New and expansion leases signed in previous periods which commenced during period	(6,958)	(34,292)	(9,024)	(15,503)
Total leases signed but not yet commenced at end of period	148,817	12,941	41,545	32,436

Edgar Filing: CoreSite Realty Corp - Form 10-K

(1) Adjustment due to a change in the factor used to allocate support space to reflect the current build-out of certain properties. The adjustment does not alter the contractual rent we expect to receive under the affected leases.

(2) During the three months ended December 31, 2012, we signed a 101,250 NRSF built-to-suit powered shell lease which we expect to commence in the second half of 2013.

Edgar Filing: CoreSite Realty Corp - Form 10-K

Table of Contents

The following table provides an overview of our properties, each as of December 31, 2012, with the exception of NY2, which was acquired February 7, 2013.

Market/Facilities	Annualized Rent (\$000)(4)	Data Center(2)		Operating(1) Office and Light- Industrial(3)		Total		Development(7) Total	Total Portfolio
		Total	Percent Leased(5)	Total	Percent Leased(5)	Total(6)	Percent Leased(5)		
Los Angeles									
One Wilshire Campus									
LA1*	\$ 24,403	150,278	76.7%	7,500	45.5%	157,778	75.2%	7,309	165,087
LA2	12,327	159,617	75.3	8,360	33.7	167,977	73.3	266,183	434,160
Los Angeles Total	36,730	309,895	76.0	15,860	39.3	325,755	74.2	273,492	599,247
San Francisco Bay									
SV1	11,277	84,045	88.4	206,255	80.2	290,300	82.6		290,300
SV2	5,968	76,676	66.4			76,676	66.4		76,676
Santa Clara Campus	15,735	119,067	68.4	71,196	91.7	190,263	77.1	305,987	496,250
San Francisco Bay Total	32,980	279,788	79.5	277,451	83.2	557,239	78.5	305,987	863,226
Northern Virginia									
VA1	20,888	201,719	72.4	61,050	76.4	262,769	73.3		262,769
VA2								198,000	198,000
DC1*	2,028	22,137	74.8			22,137	74.8		22,137
Northern Virginia Total	22,916	223,856	72.6	61,050	76.4	284,906	73.4	198,000	482,906
Boston									
BO1	9,955	148,795	92.5	13,063	39.3	161,858	88.2	111,313	273,171
Chicago									
CH1	9,834	158,167	82.5	4,946	56.9	163,113	81.7	20,240	183,353
New York									
NY1*	5,088	48,404	69.1			48,404	69.1		48,404
NY2								283,000	283,000
New York Total	5,088	48,404	69.1			48,404	69.1	283,000	331,404
Miami									
MI1	1,724	30,176	56.3	1,934	100.0	32,110	58.9	13,154	45,264
Denver									
DE1*	766	4,144	93.4			4,144	93.4		4,144
DE2*	172	5,140	61.3			5,140	61.3		5,140
Denver Total	938	9,284	75.7			9,284	75.7		9,284
Total Facilities	\$ 120,165	1,208,365	77.0%	374,304	78.4%	1,582,669	77.3%	1,205,186	2,787,855

* Indicates properties in which we hold a leasehold interest.

(1) Represents the square feet at each building under lease as specified in existing customer lease agreements plus management's estimate of space available for lease to customers based on engineers' drawings and other factors, including required data center support space (such as mechanical, telecommunications and utility rooms) and building common areas. Total NRSF at a given facility includes the total operating NRSF and total development NRSF, but excludes our office space at a facility and our corporate headquarters.

Edgar Filing: CoreSite Realty Corp - Form 10-K

- (2) Represents the NRSF at each operating facility that is currently leased or readily available for lease as data center space. Both leased and available data center NRSF includes a factor to account for a customer's proportionate share of the required data center support space (such as the mechanical, telecommunications and utility rooms) and building common areas, which may be updated on a periodic basis to reflect the most current build-out of our properties.
- (3) Represents the NRSF at each operating facility that is currently leased or readily available for lease as space other than data center space, which is typically space offered for office or light-industrial uses.
- (4) Represents the monthly contractual rent under existing customer leases as of December 31, 2012, multiplied by 12. This amount reflects total annualized base rent before any one-time or non-recurring rent abatements and it excludes operating expense reimbursement, power revenue and interconnection revenue.
- (5) Includes customer leases that have commenced as of December 31, 2012. The percent leased is determined based on leased square feet as a proportion of total operating NRSF. The percent leased for data center space, office and light industrial space, and space in total would have been 81.3%, 78.8%, and 80.8%, respectively, if all leases signed in current and prior periods had commenced.
- (6) Represents the NRSF at an operating facility currently leased or readily available for lease. This excludes existing vacant space held for development.
- (7) Represents vacant space and entitled land in our portfolio that require significant capital investment in order to develop into data center facilities. Includes NRSF under construction for which substantial activities are ongoing to prepare the property for its intended use following development. Total development NRSF and total operating NRSF represent the total NRSF at a given facility.

Edgar Filing: CoreSite Realty Corp - Form 10-K

Table of Contents

The following table shows the December 31, 2012 operating statistics for space that was leased and available to be leased as of December 31, 2010, at each of our properties, and excludes space for which development was completed and became available to be leased after December 31, 2010 (the December 31, 2010, same store pool). For comparison purposes, the operating activity totals as of December 31, 2011, and 2010, for this space are provided at the bottom of this table.

Market/Facilities	Annualized Rent (\$000)	Data Center		Office and Light- Industrial		Total	
		Total	Percent Leased	Total	Percent Leased	Total	Percent Leased
Los Angeles							
LA1*	\$ 24,403	150,278	76.7%	7,500	45.5%	157,778	75.2%
LA2	11,911	149,473	76.9	8,360	33.7	157,833	74.7
Los Angeles Total	36,314	299,751	76.8	15,860	39.3	315,611	74.9
San Francisco Bay							
SV1	11,277	84,045	88.4	206,255	80.2	290,300	82.6
SV2	5,968	76,676	66.4			76,676	66.4
Santa Clara Campus	9,732	50,000	100.0	34,000	82.5	84,000	92.9
San Francisco Bay Total	26,977	210,721	83.2	240,255	80.5	450,976	81.8
Northern Virginia							
VA1	14,618	116,499	96.5	61,050	76.4	177,549	89.6
DC1*	2,028	22,137	74.8			22,137	74.8
Northern Virginia Total	16,646	138,636	93.0	61,050	76.4	199,686	88.0
Boston							
BO1	9,569	133,646	99.1	13,063	39.3	146,709	93.7
Chicago							
CH1	9,608	128,906	97.4			128,906	97.4
New York							
NY1*	5,088	48,404	69.1			48,404	69.1
Miami							
MI1	1,724	30,176	56.3	1,934	100.0	32,110	58.9
Total Facilities at December 31, 2012(1)	\$ 105,926	990,240	85.1%	332,162	76.3%	1,322,402	82.9%
Total Facilities at December 31, 2011	\$ 101,084		85.6%		79.9%		83.9%
Total Facilities at December 31, 2010	\$ 89,364		80.5%		76.5%		79.4%

* Indicates properties in which we hold a leasehold interest.

(1) The percent leased for data center space, office and light industrial space, and space in total would have been 85.5%, 76.4%, and 83.2%, respectively, if all leases signed in current and prior periods had commenced.

Development Capital Expenditures

Edgar Filing: CoreSite Realty Corp - Form 10-K

During the year ended December 31, 2012, we incurred approximately \$88.0 million on development projects. Of the total \$88.0 million spent during 2012, approximately \$27.9 million related to the development of the Santa Clara Campus. During 2012, we placed three computer rooms into service at SV4, which increased our operating data center space by 50,951 NRSF. We estimate the remaining computer rooms at SV4 totaling 31,497 NRSF will be completed during the first quarter of 2013.

We spent approximately \$18.1 million on our development project at CH1. At CH1, we placed one computer room into service, which increased our operating data center space by 29,261 NRSF. The remaining 20,240 NRSF is scheduled to be completed in 2013.

Also during 2012, we spent \$9.5 million related to development at LA2. The remaining \$32.5 million spent during 2012 on development projects primarily related to the construction of computer rooms and tenant improvements across several of our properties.

Table of Contents

Customer Diversification

As of December 31, 2012, our portfolio was leased to over 750 customers, many of which are nationally recognized firms. The following table sets forth information regarding the ten largest customers in our portfolio based on annualized rent as of December 31, 2012:

	Industry	CoreSite Vertical	Number of Locations	Total Leased NRSF(1)	Percentage of Total Operating NRSF(2)	Annualized Rent (\$000)(3)	Percentage of Annualized Rent(4)	Weighted Average Remaining Lease Term in Months(5)
1	Technology	Digital Content & Multimedia	2	50,625	3.2%	\$ 9,461	7.9%	46
2	Technology	Systems Integrators & Managed Services Providers	3	52,902	3.3	6,362	5.3	56
3	Technology	Digital Content & Multimedia	7	38,992	2.5	4,526	3.8	11
4	Government*(6)	Enterprises	1	141,774	9.0	4,011	3.3	22
5	Technology	Cloud & IT Service Providers	1	26,842	1.7	3,494	2.9	64
6	Technology	Systems Integrators & Managed Services Providers	1	6,034	0.4	2,495	2.1	25
7	Government	Enterprises	2	16,266	1.0	2,271	1.9	21
8	Telecommunications	Network & Mobility	3	18,562	1.2	1,943	1.6	82
9	Technology	Cloud & IT Service Providers	3	9,719	0.6	1,883	1.6	8
10	Financial	Enterprises	2	11,670	0.7	1,856	1.5	26
Total/Weighted Average				373,386	23.6%	\$ 38,302	31.9%	39

* Denotes customer using space for general office purposes.

(1) Total leased NRSF is determined based on contractually leased square feet for leases that have commenced on or before December 31, 2012. We calculate occupancy based on factors in addition to contractually leased square feet, including required data center support space (such as the mechanical, telecommunications and utility rooms) and building common areas.

(2) Represents the customer's total leased square feet divided by the total operating NRSF in the portfolio which, as of December 31, 2012, consisted of 1,582,669 NRSF.

(3) Represents the monthly contractual rent under existing customer leases as of December 31, 2012, multiplied by 12. This amount reflects total annualized base rent before any one-time or non-recurring rent abatements and excludes operating expense reimbursement, power revenue and interconnection revenue.

(4) Represents the customer's total annualized rent divided by the total annualized rent in the portfolio as of December 31, 2012, which was approximately \$120.2 million.

Edgar Filing: CoreSite Realty Corp - Form 10-K

(5) Weighted average based on percentage of total annualized rent expiring calculated as of December 31, 2012.

(6) The data presented represents an interim office space lease in place that expires in May 2014. Upon expiration of the interim lease and the substantial completion of building improvements by us, a new lease that has already been executed by both parties will commence. That lease includes 119,729 NRSF with a ten-year term and a termination option at the end of year eight.

Table of Contents

Lease Distribution

The following table sets forth information relating to the distribution of leases in the properties in our portfolio, based on NRSF (excluding space held for development) under lease as of December 31, 2012:

Square Feet Under Lease(1)	Number of Leases(2)	Percentage of All Leases	Total Operating NRSF of Leases(3)	Percentage of Total Operating NRSF	Annualized Rent (\$000)(4)	Percentage of Annualized Rent
Available colocation(5)			278,120	17.6%	\$	%
Available office and light-industrial			80,809	5.1		
Colocation NRSF Under Lease						
1,000 or less	1,145	87.1	181,101	11.4	34,336	28.6
1,001 - 2,000	47	3.6	67,445	4.3	9,512	7.9
2,001 - 5,000	69	5.2	210,537	13.3	24,580	20.5
5,001 - 10,000	20	1.5	139,963	8.9	14,694	12.2
10,001 - 25,000	9	0.6	139,256	8.8	19,984	16.6
Greater than 25,000	2	0.2	61,614	3.9	6,614	5.5
Powered Shell	6	0.5	166,738	10.5	4,534	3.8
Office and light-industrial(6)	17	1.3	257,086	16.2	5,911	4.9
Portfolio Total	1,315	100.0%	1,582,669	100.0%	\$ 120,165	100.0%

-
- (1) Represents all leases in our portfolio, including data center and office and light-industrial leases.
- (2) Includes leases that upon expiration will automatically be renewed, primarily on a month-to-month basis. Number of leases represents each agreement with a customer; a lease agreement could include multiple spaces and a customer could have multiple leases.
- (3) Represents the square feet at a building under lease as specified in the lease agreements plus management's estimate of space available for lease to third parties based on engineers' drawings and other factors, including required data center support space (such as mechanical, telecommunications and utility rooms) and building common areas.
- (4) Represents the monthly contractual rent under existing customer leases as of December 31, 2012, multiplied by 12. This amount reflects total annualized base rent before any one-time or non-recurring rent abatements and excludes operating expense reimbursement, power revenue and interconnection revenue.
- (5) Excludes NRSF held for development or under construction.
- (6) Excludes office and light-industrial space of 36,409 NRSF that is a component of colocation leases. The 36,409 NRSF of office and light-industrial space is leased to data center tenants as incremental space to their data center lease space.

Lease Expirations

Edgar Filing: CoreSite Realty Corp - Form 10-K

The following table sets forth a summary schedule of the expirations for leases in place as of December 31, 2012, plus available space for each of the ten full calendar years beginning January 1, 2013, at the properties in our portfolio. Unless otherwise stated in the footnotes, the information set forth in the table assumes that customers exercise no renewal options or early termination rights.

Year of Lease Expiration	Number of Leases Expiring(1)	Total Operating NRSF of Expiring Leases	Percentage of Total Operating NRSF	Annualized Rent (\$000)(2)	Percentage of Annualized Rent	Annualized Rent Per Leased NRSF(3)	Annualized Rent at Expiration (\$000)(4)	Annualized Rent Per Leased NRSF at Expiration(5)
Available as of December 31, 2012(6)		358,929	22.7%	\$	%\$	\$	\$	\$
2013	601	254,034	16.1	29,372	24.5	115.62	29,735	117.05
2014(7)	279	300,278	19.0	29,561	24.6	98.45	30,453	101.42
2015	201	103,625	6.5	16,943	14.1	163.50	19,597	189.11
2016	99	167,444	10.6	12,965	10.8	77.43	14,438	86.23
2017	95	126,045	8.0	14,739	12.3	116.93	20,202	160.28
2018	11	93,341	5.9	9,028	7.5	96.72	11,693	125.27
2019	3	80,708	5.1	1,615	1.3	20.01	1,788	22.15
2020	4	30,664	1.9	1,099	0.9	35.84	1,194	38.94
2021	9	18,155	1.1	1,980	1.6	109.06	2,876	158.41
2022	8	26,132	1.6	2,334	1.9	89.32	3,839	146.91
2023-Thereafter	5	23,314	1.5	529	0.5	22.69	661	28.35
Portfolio Total / Weighted Average	1,315	1,582,669	100.0%	\$ 120,165	100.0%	\$ 98.19	\$ 136,476	\$ 111.52

(1) Includes leases that upon expiration will automatically be renewed, primarily on a month-to-month basis. Number of leases represents each agreement with a customer; a lease agreement could include multiple spaces and a customer could have multiple leases.

(2) Represents the monthly contractual rent under existing customer leases as of December 31, 2012, multiplied by 12. This amount reflects total annualized base rent before any one-time or non-recurring rent abatements and excludes operating expense reimbursement, power revenue and interconnection revenue.

(3) Annualized rent as defined above, divided by the square footage of leases expiring in the given year.

(4) Represents the final monthly contractual rent under existing customer leases as of December 31, 2012, multiplied by 12. This amount reflects total annualized base rent before any one-time or non-recurring rent abatements and it excludes operating expense reimbursement, power revenue and interconnection revenue.

(5) Annualized rent at expiration as defined above, divided by the square footage of leases expiring in the given year. This metric reflects the rent growth inherent in the existing base of lease agreements.

(6) Excludes NRSF held for development or under construction.

(7) Includes an office lease, which is an interim lease in place that expires on May 31, 2014. Upon the expiration of the interim lease and the substantial completion of tenant improvements by us, a new lease that has already been executed by both parties will commence. The new lease includes 119,729 NRSF with a ten-year term and a termination option at the end of year eight.

Table of Contents

Competition

We compete with numerous developers, owners and operators of technology-related real estate and data centers, many of which own properties similar to ours in the same markets in which our properties are located, including AT&T Inc., Centurylink Inc., Savvis, Inc., a Centurylink company, CyrusOne, Inc., Digital Realty Trust, Inc., Equinix, Inc., Internap Network Services Corporation, Quality Technology Services, SABEY Corporation, Telx Group Inc., Verizon / Terremark Worldwide, Inc., ViaWest Inc., and Zayo Colocation Inc. In addition, we may face competition from new entrants into the data center market. Some of our competitors and potential competitors may have significant advantages over us, including greater name recognition, longer operating histories, pre-existing relationships with current or potential customers, significantly greater financial, marketing and other resources, and access to less expensive power, all of which could allow them to respond more quickly to new or changing opportunities. If our competitors offer space, power and/or interconnection services at rates below current market rates, or below the rates we currently charge our customers, we may lose potential customers and we may be pressured to reduce our rental rates below those we currently charge in order to retain customers when our customers' leases expire.

As a developer of data center space and provider of interconnection services, we also compete for the services of key third-party providers of services, including engineers and contractors with expertise in the development of data centers. The competition for the services of specialized contractors and other third-party providers required for the development of data centers is intense, increasing the cost of engaging such providers and the risk of delays in completing our development projects.

In addition, we face competition from real estate developers in our sector and in other industries for the acquisition of additional properties suitable for the development of data centers. Such competition may reduce the number of properties available for acquisition, increase the price of these properties and reduce the demand for data center space in the markets we seek to serve.

Table of Contents

Regulation

General

Data centers in our markets are subject to various laws, ordinances and regulations, including regulations relating to common areas. We believe that each of our properties has the necessary permits and approvals to operate our business.

Americans with Disabilities Act

Our properties must comply with Title III of the American with Disabilities Act, or the ADA, to the extent that such properties are places of public accommodation or commercial facilities as defined by the ADA. The ADA requires properties that are places of public accommodation to, among other things, remove existing barriers to access by persons with disabilities where such removal is readily achievable. The ADA also requires places of public accommodation as well as commercial facilities undergoing new construction or alterations to conform to the ADA Accessibility Guidelines, which provide design standards that permit accessibility by individuals with disabilities. Further, if entities on our properties offer certain examinations or courses (i.e., those related to applications, licensing, certification, or credentialing for secondary or postsecondary education, professional, or trade purposes), they must be offered in an accessible place and manner or with alternative accessible arrangements. We believe that our properties are in substantial compliance with the ADA and that we will not be required to make substantial capital expenditures to those properties to address the requirements of the ADA. However, noncompliance with the ADA could result in imposition of monetary damages and civil penalties in lawsuits brought by the Attorney General or an award of attorneys' fees to private litigants. The obligation to make readily achievable accommodations as required by the ADA is an ongoing one, and we will continue to assess our properties and make alterations as appropriate.

Environmental Matters

Under various federal, state and local laws and regulations relating to the protection of the environment, a current or previous owner or operator of real estate may be liable for contamination resulting from the presence or discharge of hazardous or toxic substances at that property, and may be required to investigate and clean up such contamination at that property or emanating from that property. Such laws and regulations often impose liability without regard to whether the owner or operator knew of, or was responsible for, the presence of the contaminants, and a party may be liable for all of the cleanup costs, even when more than one person was responsible for the contamination. Previous owners used some of our properties for industrial and retail purposes, so those properties may contain some level of environmental contamination. The presence of contamination or the failure to remediate contamination at our properties may expose us to third-party liability or materially adversely affect our ability to sell, lease or develop the real estate or to borrow using the real estate as collateral. In addition, we could incur costs to comply with such laws and regulations, the violation of which could lead to substantial fines and penalties.

Environmental laws and regulations also require that asbestos-containing building materials be properly managed and maintained and may impose fines and penalties on building owners or operators for failure to comply with these requirements. Further, third parties could potentially seek recovery from owners or operators for personal injury associated with exposure to asbestos-containing building materials.

Edgar Filing: CoreSite Realty Corp - Form 10-K

In addition, certain of our customers, particularly those that lease light-industrial space from us, routinely handle hazardous substances and wastes as part of their operations at our properties. Environmental laws and regulations subject our customers, and potentially us, to liability resulting from these activities or from previous industrial or other uses of those properties. Environmental liabilities could also affect a customer's ability to make rental payments to us. We require our customers to comply with these environmental laws and regulations and to indemnify us for any related liabilities.

Independent environmental consultants have conducted Phase I or similar environmental site assessments on all owned properties in our portfolio. Each of the site assessments has been either completed or updated since 2005. Site assessments are intended to collect and evaluate information regarding the environmental condition of the surveyed property and surrounding properties. These assessments do not generally include soil sampling, subsurface investigations or asbestos sampling. Although prior commercial or industrial operations at some of our properties may have released hazardous materials and some of our properties contain or may contain asbestos-containing building materials, none of the recent site assessments revealed any past or present environmental liability that we believe would have a material adverse effect on our business, assets or results of operations. However, the assessments may have failed to reveal all environmental conditions, liabilities or compliance concerns. Material environmental conditions, liabilities or compliance concerns may have arisen after the reviews were completed or may arise in the future; and future laws, ordinances or regulations may impose material additional environmental liability. See [Risk Factors](#) [Risks Related to the Real Estate Industry](#) Environmental problems are possible and can be costly.

Table of Contents

Insurance

We carry comprehensive liability, fire, extended coverage, earthquake, business interruption, rental loss, and umbrella liability insurance covering all of the properties in our portfolio augmented by excess liability coverage in an amount that we believe to be appropriate. We select policy specifications and insured limits which we believe to be appropriate given the relative risk of loss, the cost of the coverage and industry practice and, in the opinion of our management, the properties in our portfolio are currently adequately insured. We do not carry insurance for generally uninsured losses such as loss from riots, war or acts of God. In addition, we carry earthquake insurance on our properties in an amount and with deductibles which we believe are commercially reasonable. Certain of the properties in our portfolio are located in areas believed to be seismically active. Potential losses to our properties may not be covered by insurance or may exceed our policy coverage limits. See Risk Factors - Potential losses to our properties may not be covered by insurance or may exceed our policy coverage limits in Item 1A. of this Annual Report.

Employees

As of December 31, 2012, we had 316 full-time and part-time employees, of which 183 employees are salaried with the remainder paid on an hourly basis. None of our employees are a member of a labor union and we believe that our relations with employees are good.

Offices

Our corporate offices are located at 1050 17th Street, Suite 800, Denver, CO 80265.

How to Obtain Our SEC Filings

All reports we file with the SEC are available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. We also provide copies of our Forms 8-K, 10-K, 10-Q, Proxy Statement, Annual Report and amendments to those documents at no charge to investors upon request and make electronic copies of such reports available through our website at www.coresite.com as soon as reasonably practicable after filing such material with the SEC. The information found on, or otherwise accessible through, our website is not incorporated by reference into, nor does it form a part of, this Annual Report on Form 10-K, or any other document that we file with the SEC.

Financial Information

For required financial information related to our operations, please refer to our consolidated financial statements, including the notes thereto, included in Item 8 Financial Statement and Supplementary Data this Annual Report.

Table of Contents

ITEM 1A. RISK FACTORS

Any of the following risks could materially and adversely affect our business, results of operations or financial condition. The risks and uncertainties described below are those that we currently believe may materially affect our company. Additional risks and uncertainties of which we are unaware or that we currently deem immaterial also may become important factors that affect our company.

Risks Related to Our Business and Operations

Global economic conditions could adversely affect our liquidity and financial condition.

General economic conditions and the cost and availability of capital may be adversely affected in some or all of the markets in which we own properties and conduct our operations. Renewed or increased turbulence in the U.S., European and other international financial markets and economies may adversely affect our ability, and the ability of our tenants, to replace or renew maturing liabilities on a timely basis, access the capital markets to meet liquidity and capital expenditure requirements and may result in adverse effects on our, and our tenants', financial condition and results of operations.

In addition, our access to funds under our revolving credit facility and other lines of credit depend on the ability of the lenders that are parties to such facilities to meet their funding commitments to us. We cannot assure you that long-term disruptions in the global economy and the return of tighter credit conditions among, and potential failures or nationalizations of, third party financial institutions as a result of such disruptions will not have an adverse effect on our lenders. If our lenders are not able to meet their funding commitments to us, our business, results of operation, cash flows and financial condition could be adversely affected.

If we do not have sufficient cash flow to continue operating our business and are unable to borrow additional funds, access our existing lines of credit or raise equity or debt capital, we may need to find alternative ways to increase our liquidity. Such alternatives may include, without limitation, curtailing development activity, disposing of one or more of our properties possibly on disadvantageous terms or entering into or renewing leases on less favorable terms than we otherwise would.

Our portfolio of properties consists primarily of data centers geographically concentrated in certain markets and any adverse developments in local economic conditions or the demand for data center space in these markets may negatively impact our operating results.

Our portfolio of properties consists primarily of data centers geographically concentrated in Los Angeles, the San Francisco Bay and Northern Virginia areas, Boston, Chicago, New York City, Miami and Denver. These markets comprised 30.6%, 27.4%, 19.1%, 8.3%, 8.2%, 4.2%, 1.4%, and 0.8%, respectively, of our annualized rent as of December 31, 2012. As such, we are susceptible to local economic conditions and the supply of and demand for data center space in these markets. If there is a downturn in the economy or an oversupply of or decrease in demand for data centers in these markets, our business could be materially adversely affected to a greater extent than if we owned a real estate portfolio that was more diversified in terms of both geography and industry focus.

The market price of our stock may be subject to volatility, and the value of an investment in our common stock may decline.

Since January 3, 2012, the closing sale price of our common stock on the New York Stock Exchange (NYSE) has ranged from \$17.96 to \$28.00 per share. General economic and market conditions, and market conditions for telecommunications and real estate stocks in general, may affect the market price of our common stock.

Announcements by us or others, or speculations about our future plans, may also have a significant impact on the market price of our common stock. These may relate to:

- our operating results or forecasts;
- new issuances of equity, debt or convertible debt by us;
- changes to our capital allocation or business strategy;
- developments in our relationships with corporate customers;
- announcements by our customers or competitors;
- changes in regulatory policy or interpretation;
- governmental investigations;
- changes in the ratings of our debt or stock by rating agencies or securities analysts;

Table of Contents

- our purchase or development of real estate and/or additional data centers;
- our acquisitions of complementary businesses; or
- the operational performance of our data centers.

The stock market has from time to time experienced extreme price and volume fluctuations, which have often been unrelated to operating performance. These broad market fluctuations may adversely affect the market price of our common stock.

We face significant competition and may be unable to lease vacant space, renew existing leases or release space as leases expire, which may have a material adverse effect on our business and results of operations.

We compete with numerous developers, owners and operators of technology-related real estate and data centers, many of which own properties similar to ours in the same markets. In addition, we may face competition from new entrants into the data center market. Some of our competitors have significant advantages over us, including greater name recognition, longer operating histories, lower operating costs, pre-existing relationships with current or potential customers, greater financial, marketing and other resources, access to better networks and access to less expensive power. These advantages could allow our competitors to respond more quickly or effectively to strategic opportunities or changes in our industries or markets. If our competitors offer data center space that our existing or potential customers perceive to be superior to ours based on numerous factors, including power, security considerations, location or network connectivity, or if they offer rental rates below our current market rates, we may lose existing or potential customers, incur costs to improve our properties or be forced to reduce our rental rates. This risk is compounded by the fact that a significant percentage of our customer leases expire every year. For example, as of December 31, 2012, leases representing 24.5%, 24.6% and 14.1% of our annualized rent will expire during 2013, 2014, and 2015, respectively. If the rental rates for our properties decrease, our existing customers do not renew their leases or we are unable to lease vacant data center space or re-lease data center space for which leases are scheduled to expire, our business and results of operations could be materially adversely affected.

We are continuing to invest in our expansion efforts, but we may not have sufficient customer demand in the future to realize expected returns on these investments.

As part of our growth strategy, we intend to commit substantial operational and financial resources to develop new data centers and expand existing ones. However, we typically do not require pre-leasing commitments from customers before we develop or expand a data center, and we may not have sufficient customer demand to support the new data center space when completed. Once development of a data center is complete, we incur a certain amount of operating expenses even if there are no tenants occupying the space. A lack of customer demand for data center space or excess capacity in the data center market could impair our ability to achieve our expected rate of return on our investment, which could have a material adverse effect on our financial condition, operating results and the market price of our common stock.

Declining real estate valuations and impairment charges could adversely affect our earnings and financial condition.

We periodically review each of our properties for indicators that its carrying amount may not be recoverable. Examples of such indicators may include a significant decrease in the market price, a significant adverse change in the extent or manner in which the property is being used or expected to be used based on the underwriting at the time of acquisition, or a change in its physical condition, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development, or a history of operating or cash flow losses. When such impairment indicators exist, we review an estimate of the future cash flows (excluding interest charges) expected to result from the real estate investment's use and eventual disposition and compare to the carrying value of the property. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our undiscounted net cash flow evaluation indicates that we are unable to recover the carrying value of a real estate investment, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property. Recording an impairment loss would result in an immediate negative adjustment to net income. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. A worsening real estate market may cause us to reevaluate the assumptions used in our impairment analysis. Impairment charges could adversely affect our financial condition, results of operations.

Our properties depend upon the demand for technology-related real estate.

Our portfolio of properties consists primarily of technology-related real estate and data center real estate in particular. A decrease in the demand for data center space, Internet gateway facilities or other technology-related real estate would have a greater

Table of Contents

adverse effect on our business and financial condition than if we owned a portfolio with a more diversified tenant base or less specialized use. Our substantial redevelopment activities make us particularly susceptible to general economic slowdowns, including recessions, as well as adverse developments in the corporate data center, Internet and data communications and broader technology industries. Any such slowdown or adverse development could lead to reduced corporate IT spending or reduced demand for data center space. Reduced demand could also result from business relocations, including to markets that we do not currently serve. Changes in industry practice or in technology, such as virtualization technology, more efficient or miniaturization of computing or networking devices, or devices that require higher power densities than today's devices, could also reduce demand for the physical data center space we provide or make the tenant improvements in our facilities obsolete or in need of significant upgrades to remain viable. In addition, the development of new technologies, the adoption of new industry standards or other factors could render many of our tenants' current products and services obsolete or unmarketable and contribute to a downturn in their businesses, thereby increasing the likelihood that they default under their leases, become insolvent or file for bankruptcy.

Our products and services have a long sales cycle that may harm our revenues and operating results.

A customer's decision to lease space in one of our data centers and to purchase additional services typically involves a significant commitment of resources. In addition, some customers will be reluctant to commit to locating in our data centers until they are confident that the data center has adequate carrier connections. As a result, we have a long sales cycle. Furthermore, we may expend significant time and resources in pursuing a particular sale or customer that does not result in revenue. We have also expanded our sales force and restructured our sales organization in the past year. It will take time for these new hires to become fully productive.

Delays due to the length of our sales cycle may materially and adversely affect our revenues and operating results, which could harm our ability to meet our forecasts for a given quarter and cause volatility in our stock price.

Any failure of our physical infrastructure or services could lead to significant costs and disruptions that could reduce our revenues, harm our business reputation and have a material adverse effect on our financial results.

Our business depends on providing customers with highly reliable service. We may fail to provide such service as a result of numerous factors, including:

- human error;

- power loss;

- improper building maintenance by our landlords in the buildings that we lease;

Edgar Filing: CoreSite Realty Corp - Form 10-K

- physical or electronic security breaches;
- fire, earthquake, hurricane, flood and other natural disasters;
- water damage;
- war, terrorism and any related conflicts or similar events worldwide; and
- sabotage and vandalism.

Problems at one or more of our data centers, whether or not within our control, could result in service interruptions or equipment damage. We provide service level commitments to substantially all of our customers. As a result, service interruptions or equipment damage in our data centers could result in credits to these customers. In addition, although we have given such credits to our customers in the past, there can be no assurance that our customers will accept these credits as compensation in the future. Service interruptions and equipment failures may also expose us to additional legal liability and damage our brand image and reputation. Significant or frequent service interruptions could cause our customers to terminate or not renew their leases. In addition, we may be unable to attract new customers if we have a reputation for significant or frequent service disruptions in our data centers.

Table of Contents

Even if we have additional space available for lease at any one of our data centers, our ability to lease this space to existing or new customers could be constrained by our access to sufficient electrical power.

Our properties have access to a finite amount of power, which limits the extent to which we can lease additional space for use at our data centers. As current and future customers increase their power footprint in our facilities over time, the remaining available power for future customers could limit our ability to increase occupancy rates or network density within our existing facilities.

Furthermore, at certain of our data centers, our aggregate maximum contractual obligation to provide power and cooling to our customers may exceed the physical capacity at such data centers if customers were to quickly increase their demand for power and cooling. If we are not able to increase the available power and/or cooling or move the customer to another location within our data centers with sufficient power and cooling to meet such demand, we could lose the customer as well as be exposed to liability under our leases. Any such material loss of customers or material liability could adversely affect our results of operations.

To fund our growth strategy and refinance our indebtedness, we depend on external sources of capital, which may not be available to us on commercially reasonable terms or at all.

In order to maintain our qualification as a REIT, we are required under the Internal Revenue Code (the Code) to distribute at least 90% of our net taxable income annually, determined without regard to the dividends paid deduction and excluding any net capital gains. We will also be subject to income tax at regular corporate rates to the extent that we distribute less than 100% of our net taxable income, including any net capital gains. These distribution requirements may limit our ability to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, we intend to rely on third-party sources for debt or equity financing to fund our growth strategy. In addition, we may need external sources of capital to refinance our indebtedness at maturity. We may not be able to obtain such financing or refinancing on favorable terms or at all. Our access to third-party sources of capital depends, in part, on:

- general market conditions;
- the market's perception of our growth potential;
- our then current debt levels;
- our historical and expected future earnings, cash flow and cash distributions; and
- the market price per share of our common stock.

In addition, our ability to access additional capital may be limited by the terms of our existing indebtedness, which restricts our incurrence of additional debt. If we cannot obtain capital when needed, we may not be able to acquire or develop properties when strategic opportunities arise or refinance our debt at maturity, which could have a material adverse effect on our business.

We may be vulnerable to security breaches which could disrupt our operations and have a material adverse effect on our financial performance and operating results.

A party who is able to compromise the security measures on our networks or the security of our infrastructure could misappropriate our proprietary information and the personal information of our customers and cause interruptions or malfunctions in our or our customers operations. We may be required to expend significant financial resources to protect against such threats or to alleviate problems caused by security breaches. As techniques used to breach security change frequently and are generally not recognized until launched against a target, we may not be able to implement security measures in a timely manner or, if and when implemented, these measures could be circumvented. Any breaches that may occur could expose us to increased risk of lawsuits, loss of existing or potential future customers, harm to our reputation and increases in our security costs, which could have a material adverse effect on our financial performance and operating results.

Table of Contents

Our success depends on key personnel whose continued service is not guaranteed and we may not be able to retain or attract knowledgeable, experienced and qualified personnel.

We depend on the efforts of key personnel, particularly Mr. Thomas M. Ray, our President and Chief Executive Officer, Jeffrey Finnin, our Chief Financial Officer, Jarrett Appleby, our Chief Operating Officer, and Derek McCandless, our General Counsel. Our reputation and relationships with existing and potential future customers, industry personnel and key lenders are the direct result of a significant investment of time and effort by our key personnel to build credibility in a highly specialized industry. Many of our senior executives have extensive experience and strong reputations in the real estate and technology industries, which aid us in capitalizing on strategic opportunities and negotiating with customers. While we believe that we will be able to find suitable replacements for key personnel who may depart from time to time, the loss of their services could diminish our business and investment opportunities and our customer, industry and lender relationships, which could have a material adverse effect on our operations.

In addition, our success depends, to a significant degree, on being able to employ and retain personnel who have the expertise required to successfully acquire, develop and operate high-quality data centers. Personnel with these skill sets are in limited supply so the demand and competition for such expertise is intense. We cannot assure you that we will be able to hire and retain a sufficient number of qualified employees at reasonable compensation levels to support our growth and maintain the high level of quality service our customers expect, and any failure to do so could have a material adverse effect on our business.

Our expenses may not decrease if our revenue decreases.

Most of the expenses associated with our business, such as debt service payments, real estate, personal and ad valorem taxes, insurance, utilities, employee wages and benefits and corporate expenses are relatively inflexible and do not necessarily decrease in tandem with a reduction in revenue from our business. Our expenses will also be affected by inflationary increases and certain of our costs may exceed the rate of inflation in any given period. As a result, we may not be able to fully offset our costs by higher lease rates, which could have a material adverse effect on our results of operations.

We depend on third parties to provide network connectivity within and between certain of our data centers, and any delays or disruptions in this connectivity may adversely affect our operating results and cash flow.

We depend upon carriers and other network providers to deliver network connectivity to customers within our data centers as well as the fiber network interconnection between our data centers. Our hub-and-spoke approach makes us dependent on these third parties to provide these services between our data centers. We cannot assure you that any network provider will elect to offer its services within new data centers that we develop or that once a network provider decides to provide connectivity to or between our data centers, it will continue to do so for any period of time. A significant interruption in or loss of these services could impair our ability to attract and retain customers and have a material adverse effect on our business.

Enabling connectivity within and between our data centers requires construction and operation of a sophisticated redundant fiber network. The construction required to connect our data centers is complex and may involve factors outside of our control, including the availability of construction resources. If highly reliable connectivity within and between certain of our data centers is not established, is materially delayed, is

Edgar Filing: CoreSite Realty Corp - Form 10-K

discontinued or fails, our reputation could be harmed, which could have a material adverse effect on our ability to attract new customers or retain existing ones.

Table of Contents

Our data center infrastructure may become obsolete and we may not be able to upgrade our power and cooling systems cost-effectively or at all.

The markets for the data centers that we own and operate, as well as the industries in which our customers operate, are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions and changing customer demands. Our ability to deliver technologically sophisticated power and cooling are significant factors in our customers' decisions to rent space in our data centers. Our data center infrastructure may become obsolete due to the development of new systems to deliver power to, or eliminate heat from, the servers and other customer equipment that we house. Additionally, our data center infrastructure could become obsolete as a result of the development of new technology that requires levels of power and cooling that our facilities are not designed to provide. Our power and cooling systems are also difficult and expensive to upgrade. Accordingly, we may not be able to efficiently upgrade or change these systems to meet new demands without incurring significant costs that we may not be able to pass on to our customers. The obsolescence of our power and cooling systems would have a material adverse effect on our business. In addition, evolving customer demand could require services or infrastructure improvements that we do not provide or that would be difficult or expensive for us to provide in our current data centers, and we may be unable to adequately adapt our properties or acquire new properties that can compete successfully. We risk losing customers to our competitors if we are unable to adapt to this rapidly evolving marketplace.

Furthermore, potential future regulations that apply to industries we serve may require customers in those industries to seek specific requirements from their data centers that we are unable to provide. These may include physical security requirements applicable to the defense industry and government contractors and privacy and security regulations applicable to the financial services and health care industries. If such regulations were adopted, we could lose some customers or be unable to attract new customers in certain industries, which would have a material adverse effect on our results of operations.

Potential losses to our properties may not be covered by insurance or may exceed our policy coverage limits.

We do not carry insurance for generally uninsured losses, such as losses from riots, war, terrorist attacks or acts of God. The properties in our portfolio located in California are subject to higher risks from earthquakes and our East Coast properties, including Miami, are potentially subject to greater risks arising from tropical storms, hurricanes and floods. Together, these properties represented approximately 91.0% of total annualized rent as of December 31, 2012. While we do carry earthquake, hurricane and flood insurance on our properties, the amount of our insurance coverage may not be sufficient to fully cover such losses. In addition, we may discontinue earthquake, hurricane or flood insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage relative to the risk of loss.

If we experience a loss which is uninsured or which exceeds our policy coverage limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

In addition, even if damage to our properties is covered by insurance, a disruption of our business caused by a casualty event may result in the loss of business or customers. We carry a limited amount of business interruption insurance, but such insurance may not fully compensate us for the loss of business or customers due to an interruption caused by a casualty event.

Edgar Filing: CoreSite Realty Corp - Form 10-K

The recent disruption in the financial markets makes it more difficult to evaluate the stability and net assets or capitalization of insurance companies, and any insurer's ability to meet its claim payment obligations. A failure of an insurance company to make payments to us upon an event of loss covered by an insurance policy could have a material adverse effect on our business and financial condition.

A small number of customers account for a significant portion of our revenues, and the loss of any of these customers could significantly harm our business, financial condition and results of operations.

We currently depend, and expect to continue to depend, upon a relatively small number of customers for a significant percentage of our net revenue. Our top ten customers accounted for an aggregate of approximately 31.9% of our total annualized rent as of December 31, 2012. Some of our customers may experience a downturn in their businesses or other factors that may weaken their financial condition and result in them failing to make timely rental payments, defaulting on their leases, reducing the level of interconnection services they obtain or the amount of space they lease from us or terminating their relationship with us. The loss of one or more of our significant customers or a customer exerting significant pricing pressure on us could also have a material adverse effect on our results of operations.

In addition, our largest customers may choose to develop new data centers or expand existing data centers of their own. In the event that any of our key customers were to do so, it could result in a loss of business to us or increase pricing pressure on us. If we lose a customer, there is no guarantee that we would be able to replace that customer at a comparative rental rate or at all.

Table of Contents

Some of our largest customers may also compete with one another in various aspects of their businesses. The competitive pressures on our customers may have a negative impact on our operations. For instance, one customer could determine that it is not in that customer's interest to house mission-critical servers in a facility operated by the same company that relies on a key competitor for a significant part of its annual revenue. Our loss of a large customer for this or any other reason could have a material adverse effect on our results of operations.

We are dependent upon third-party suppliers for power and certain other services, and we are vulnerable to service failures of our third-party suppliers and to price increases by such suppliers.

We rely on third parties to provide power to our data centers, and we cannot ensure that these third parties will deliver such power in adequate quantities or on a consistent basis. If the amount of power available to us is inadequate to support our customer requirements, we may be unable to satisfy our obligations to our customers or grow our business. In addition, our data centers are susceptible to power shortages and planned or unplanned power outages caused by these shortages. While we attempt to limit exposure to power shortages by using backup generators and batteries, power outages may last beyond our backup and alternative power arrangements, which would harm our customers and our business. In the past, a limited number of our customers have experienced temporary losses of power. Pursuant to the terms of some of our customer leases, continuous or chronic power outages may give certain of our tenants the right to terminate their leases or cause us to incur financial obligations in connection with a power loss. In addition, any loss of services or equipment damage could reduce the confidence of our customers in our services thereby impairing our ability to attract and retain customers, which would adversely affect both our ability to generate revenues and our operating results, and harm our reputation.

In addition, we may be subject to risks and unanticipated costs associated with obtaining power from various utility companies. Municipal utilities in areas experiencing financial distress may increase rates to compensate for financial shortfalls unrelated to either the cost of production or the demand for electricity. Other utilities that serve our data centers may be dependent on, and sensitive to price increases for, a particular type of fuel, such as coal, oil or natural gas. In addition, the price of these fuels and the electricity generated from them could increase as a result of proposed legislative measures related to climate change or efforts to regulate carbon emissions. In any of these cases, increases in the cost of power at any of our data centers would put those locations at a competitive disadvantage relative to data centers served by utilities that can provide less expensive power.

We may be unable to identify and complete acquisitions and successfully operate acquired properties.

We continually evaluate the market for available properties and may acquire data centers or properties suited for data center development when opportunities exist. Our ability to acquire properties on favorable terms and successfully develop and operate them involves significant risks including, but not limited to:

- we may be unable to acquire a desired property because of competition from other data center companies or real estate investors with more capital;
- even if we are able to acquire a desired property, competition from other potential acquirers may significantly increase the purchase price of such property;

Edgar Filing: CoreSite Realty Corp - Form 10-K

- we may be unable to realize the intended benefits from acquisitions or achieve anticipated operating or financial results;
- we may be unable to finance the acquisition on favorable terms or at all;
- we may underestimate the costs to make necessary improvements to acquired properties;
- we may be unable to quickly and efficiently integrate new acquisitions into our existing operations resulting in disruptions to our operations or the diversion of our management's attention;
- acquired properties may be subject to tax reassessments, which may result in higher than expected tax payments;
- we may not be able to access sufficient power on favorable terms or at all; and
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates.

In the past we have acquired properties that did not perform up to our expectations and there can be no assurance that this will not happen again. If we are unable to successfully acquire, develop and operate data center properties, our ability to grow our business, compete and meet market expectations will be significantly impaired, which would have a material adverse effect on the price of our common stock.

Table of Contents

We may be subject to unknown or contingent liabilities related to properties or businesses that we acquire for which we may have limited or no recourse against the sellers.

Assets and entities that we have acquired or may acquire in the future, including the properties contributed by the Funds or their affiliates, may be subject to unknown or contingent liabilities for which we may have limited or no recourse against the sellers. Unknown or contingent liabilities might include liabilities for clean-up or remediation of environmental conditions, claims of customers, vendors or other persons dealing with the acquired entities, tax liabilities and other liabilities whether incurred in the ordinary course of business or otherwise. In the future we may enter into transactions with limited representations and warranties or with representations and warranties that do not survive the closing of the transactions, in which event we would have no or limited recourse against the sellers of such properties. While we usually require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such indemnification (including the indemnification by the Funds or their affiliates) is often limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses.

As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that we may incur with respect to liabilities associated with acquired properties and entities may exceed our expectations, which may adversely affect our operating results and financial condition. Finally, indemnification agreements between us and the sellers typically provide that the sellers will retain certain specified liabilities relating to the assets and entities acquired by us. While the sellers are generally contractually obligated to pay all losses and other expenses relating to such retained liabilities, there can be no guarantee that such arrangements will not require us to incur losses or other expenses as well.

Under the contribution agreement pursuant to which the Funds or their affiliates contributed the properties that comprise our portfolio to the Operating Partnership, each of the Funds or their affiliates made certain representations and warranties as to certain material matters related to the property being contributed by such fund or affiliate such as title to any owned property, compliance with laws (including environmental laws) and the enforceability of certain material customer contracts and leases. These representations and warranties made by the Funds or their affiliates have since expired without our becoming aware of any breach. Therefore, we have no further recourse against the contributors under the contribution agreement.

Our growth depends on the successful development of our properties and any delays or unexpected costs associated with such projects may harm our growth prospects, future operating results and financial condition.

As of December 31, 2012, with the exception of NY2, which was acquired February 7, 2013, we had the ability to expand our operating data center square footage by approximately 99.7%, or approximately 1.2 million NRSF, through the development of (1) 94,650 NRSF space under construction, (2) 216,250 NRSF planned to commence development during 2013 at NY2 and on land that we currently own at VA2 and our Santa Clara Campus, and 3) 894,286 NRSF at multiple facilities, as shown on the development table on page 9, that may be developed over time based on market supply, demand and our financing capabilities. Our growth depends upon the successful completion of the development of this space and similar projects in the future. Current and future development projects and expansion into new markets will involve substantial planning, allocation of significant company resources and certain risks, including risks related to financing, zoning, regulatory approvals, construction costs and delays. These projects will also require us to carefully select and rely on the experience of one or more general contractors and associated subcontractors during the construction process. Should a general contractor or significant subcontractor experience financial or other problems during the construction process, we could experience significant delays, increased costs to complete the project and other negative impacts to our expected returns. Site selection in current and expansion markets is also a critical factor in our expansion plans, and there may not be suitable properties available in our markets at a location that is attractive to our customers and has the necessary combination of access to multiple network providers, a significant supply of electrical power, high ceilings and the ability to sustain heavy floor loading. Furthermore, while we may prefer to locate new data centers adjacent to our existing data centers, we may be limited by the size and location of

suitable properties.

In addition, we will be subject to risks and, potentially, unanticipated costs associated with obtaining access to a sufficient amount of power from local utilities, including the need, in some cases, to develop utility substations on our properties in order to accommodate our power needs, constraints on the amount of electricity that a particular locality's power grid is capable of providing at any given time, and risks associated with the negotiation of long-term power contracts with utility providers. We cannot assure you that we will be able to successfully negotiate such contracts on acceptable terms or at all. Any inability to negotiate utility contracts on a timely basis or on acceptable financial terms or in volumes sufficient to supply the requisite power for our development properties would have a material negative impact on our growth and future results of operations and financial condition.

These and other risks could result in delays or increased costs or prevent the completion of our development projects, any of which could have a material adverse effect on our financial condition, results of operations, cash flow, the trading price of our common stock and our ability to satisfy our debt service obligations or pay dividends.

Table of Contents

We do not own all of the buildings in which our data centers are located. Instead, we lease certain of our data center space and the ability to renew these leases could be a significant risk to our ongoing operations.

We do not own the buildings for five of our data centers and our business could be harmed if we are unable to renew the leases for these data centers at favorable terms or at all. The following table summarizes the remaining primary term and renewal rights associated with each of our leased properties:

Property	NRSF	Current Lease Term Expiration	Renewal Rights	Base Rent Increases at Renewal
NY1	48,404	Apr. 2023	2 x 5 yrs	FMR(1)
LA1	157,778	July 2022	3 x 5 yrs	103% of previous monthly base rent(2)
DC1	22,137	May 2016	3 x 5 yrs	Greater of 103% of previous monthly base rent or 95% of FMR(1)
DE1	4,144	Sept. 2014	N/A	
DE2	5,140	Dec. 2017	N/A	

(1) FMR represents fair market rent as determined by mutual agreement between landlord and tenant, or in the case of a disagreement, mutual agreement by third party appraisers.

(2) On January 9, 2013, we extended our lease of LA1 from July 2017, to July 2022.

When the primary term of our leases expire, we have the right to extend the terms of our leases as indicated above. For two of these leases, the rent will be determined based on the fair market value of rental rates for the property and the then prevailing rental rates may be higher than rental rates under the applicable lease. To maintain the operating profitability associated with our present cost structure, we must increase revenues within existing data centers to offset any potential increase in lease payments at the end of the original and renewal terms. Failure to increase revenues to sufficiently offset these projected higher costs would adversely impact our operating income. At the end of our renewal options, we would have to renegotiate our lease terms with the landlord.

If we are not able to renew the lease at any of our data centers, the costs of relocating the equipment in such data centers and developing a new location into a high-quality data center could be prohibitive. In addition, we could lose customers due to the disruptions in their operations caused by the relocation. We could also lose those customers that choose our data centers based on their locations.

Our level of indebtedness and debt service obligations could have adverse effects on our business.

As of December 31, 2012, we had a total indebtedness of approximately \$59.8 million, all of which was secured indebtedness. Subsequent to December 31, 2012, we entered into the Second Amended and Restated Credit Agreement and increased our borrowing capacity to \$355.0 million. While there are limits in our revolving credit facility and our one mortgage loan agreement on the amount of debt that we may incur, and additional limits on our indebtedness may be imposed by future agreements or by a policy adopted by our Board of Directors, we have the ability to increase our indebtedness over current levels. A substantial increase in our indebtedness may have adverse consequences for our

Edgar Filing: CoreSite Realty Corp - Form 10-K

business, results of operations and financial condition because it could, among other things:

- require us to dedicate a substantial portion of our cash flow from operations to make principal and interest payments on our indebtedness, thereby reducing our cash flow available to fund working capital, capital expenditures and other general corporate purposes, including to pay dividends on our common and preferred stock as currently contemplated or necessary to maintain our qualification as a REIT;
- make it more difficult for us to satisfy our financial obligations, including borrowings under our new revolving credit facility;
- increase our vulnerability to general adverse economic and industry conditions;
- expose us to increases in interest rates for our variable rate debt;
- limit our ability to borrow additional funds on favorable terms or at all to expand our business or ease liquidity constraints;
- limit our ability to refinance all or a portion of our indebtedness on or before maturity on the same or more favorable terms or at all;

Edgar Filing: CoreSite Realty Corp - Form 10-K

Table of Contents

- limit our flexibility in planning for, or reacting to, changes in our business and our industry;
- place us at a competitive disadvantage relative to competitors that have less indebtedness; and
- require us to dispose of one or more of our properties at disadvantageous prices or raise equity that may dilute the value of our common stock in order to service our indebtedness or to raise funds to pay such indebtedness at maturity.

The agreements governing our indebtedness place restrictions on us and our subsidiaries, reducing operational flexibility and creating default risks.

The agreements governing our indebtedness contain covenants that place restrictions on us and our subsidiaries. These covenants may restrict, among other things, our and our subsidiaries' ability to:

- merge, consolidate or transfer all or substantially all of our or our subsidiaries' assets;
- incur additional debt or issue preferred stock, including use of our existing capacity under our revolving credit facility;
- make certain investments or acquisitions;
- create liens on our or our subsidiaries' assets;
- sell assets;
- make capital expenditures;
- pay dividends on or repurchase our capital stock;

- enter into transactions with affiliates;
- issue or sell stock of our subsidiaries; and
- change the nature of our business.

These covenants could impair our ability to grow our business, take advantage of attractive business opportunities or successfully compete. In addition, our revolving credit facility requires us to maintain specified financial ratios and satisfy financial condition tests. Our ability to comply with these ratios or tests may be affected by events beyond our control, including prevailing economic, financial and industry conditions. A breach of any of these covenants or covenants under any other agreements governing our indebtedness could result in an event of default. Cross-default provisions in our debt agreements could cause an event of default under one debt agreement to trigger an event of default under our other debt agreements. Upon the occurrence of an event of default under any of our debt agreements, the lenders could elect to declare all outstanding debt under such agreements to be immediately due and payable. If we were unable to repay or refinance the accelerated debt, the lenders could proceed against any assets pledged to secure that debt, including foreclosing on or requiring the sale of our data centers, and our assets may not be sufficient to repay such debt in full.

Fluctuations in interest rates could materially affect our financial results

Because all of our debt bears interest at variable rates, increases in interest rates could materially increase our interest expense. If the United States Federal Reserve increases short-term interest rates, this would have a significant upward impact on shorter-term interest rates, including the interest rates upon which our variable rate debt is based. Potential future increases in interest rates and credit spreads may increase our interest expense and thereby negatively affect our financial condition and results of operations, and reduce our access to capital markets.

Table of Contents

Mortgage debt obligations expose us to the possibility of foreclosure, which could result in the loss of our investment in any property subject to mortgage debt.

As of December 31, 2012, our SV1 property was subject to a \$59.8 million mortgage loan. Incurring mortgage and other secured debt obligations increases our risk of property losses because defaults on secured indebtedness may result in foreclosure actions initiated by lenders and ultimately our loss of the property securing any loans for which we are in default. For tax purposes, a foreclosure of any of our properties would be treated as a sale of the property for a purchase price equal to the outstanding balance of the debt secured by the mortgage. If the outstanding balance of the debt secured by the mortgage exceeds our tax basis in the property, we would recognize taxable income on foreclosure, but would not receive any cash proceeds, which could hinder our ability to meet the REIT distribution requirements imposed by the Code. As we execute our business plan, we may assume or incur new mortgage indebtedness on our existing properties or properties that we acquire in the future. Any default under a mortgage debt obligation may increase the risk of our default on our other indebtedness.

Because we depend on the development and growth of a balanced customer base, including key customers, failure to attract, grow and retain this base of customers could harm our business and operating results.

Our ability to maximize revenues depends on our ability to develop and grow a balanced customer base, consisting of a variety of companies, including enterprises, cloud and IT service providers, digital content and multimedia providers, systems integrators and managed services providers and networks and mobility. We consider certain of these customers to be key in that they draw in other customers. The more balanced the customer base within each data center, the better we will be able to generate significant interconnection revenues, which in turn increases our overall revenues. Our ability to attract customers to our data centers will depend on a variety of factors, including the presence of multiple carriers, the mix of products and services offered by us, the overall mix of customers, the presence of key customers attracting business through vertical market ecosystems, the data center's operating reliability and security and our ability to effectively market our services. However, some of our customers may face competitive pressures and may ultimately not be successful or may be consolidated through merger or acquisition. If these customers do not continue to use our data centers it may be disruptive to our business. Finally, the uncertain economic climate may harm our ability to attract and retain customers if customers slow spending, or delay decision-making, on our products and services, or if customers begin to have difficulty paying us and we experience increased churn in our customer base. Any of these factors may hinder the development, growth and retention of a balanced customer base and adversely affect our business, financial condition and results of operations.

Certain of the properties in our portfolio have been owned or operated for a limited period of time, and we may not be aware of characteristics or deficiencies involving any one or all of them.

As of December 31, 2012, our portfolio of properties consisted of 14 operating data center facilities and multiple development projects. Eleven of our properties were acquired or developed by the Funds or their affiliates less than four years prior to the date of our IPO and we recently completed the initial development of one of these properties. Because these properties have been in operation for a relatively short period of time, we may be unaware of characteristics of or deficiencies in such properties that could adversely affect their valuation or revenue potential and such properties may not ultimately perform up to our expectations.

Our tax protection agreements could limit our ability to sell or otherwise dispose of certain properties.

Edgar Filing: CoreSite Realty Corp - Form 10-K

We have agreed with each of the Funds or their affiliates that have directly or indirectly contributed their interests in the properties in our portfolio to our operating partnership that if we directly or indirectly sell, convey, transfer or otherwise dispose of all or any portion of these interests in a taxable transaction, we will make an interest-free loan to the contributors in an amount equal to the contributor's tax liabilities, based on an assumed tax rate. Any such loan would be repayable out of the after tax-proceeds (based on an assumed tax rate) of any distribution from the operating partnership to, or any sale of operating partnership units (or common stock issued by us in exchange for such units) by, the recipient of such loan, and would be non-recourse to the borrower other than with respect to such proceeds. These tax protection provisions apply for a period expiring on the earliest of (i) the seventh anniversary of the completion of our IPO and (ii) the date on which these contributors (or certain transferees) dispose in certain taxable transactions of 90% of the operating partnership units that were issued to them in connection with the contribution of these properties.

Increases in our property and other state and local taxes could adversely affect our ability to make distributions to our stockholders if they cannot be passed on to our customers.

We are subject to a variety of state and local taxes, including real and personal property taxes and sales and use taxes that may increase materially due to factors outside our control. In particular, taxes on our properties may increase as tax rates change and as the properties are assessed or reassessed by taxing authorities. We expect to be notified by local taxing authorities that the assessed values of certain of our properties have increased. We plan to appeal these increased assessments, but we may not be successful in our efforts. Furthermore, some of our properties may be reassessed retroactively to the date we or the Funds acquired the property, which could require us to make cumulative payments for multiple years. Our leases with our customers generally do not allow us to increase

Table of Contents

their rent as a result of an increase in property or other taxes. If property or other taxes increase and we cannot pass these increases on to our customers through increased rent for new leases or upon lease renewals, our result of operations, cash flow and ability to make distributions to our stockholders would be adversely affected.

The bankruptcy or insolvency of a major tenant may adversely affect the income produced by our properties.

If any tenant becomes a debtor in a case under the federal Bankruptcy Code, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might authorize the tenant to reject and terminate its lease with us. Our claim against the tenant for unpaid, future rent would be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. In either case, our claim for unpaid rent would likely not be paid in full. As of December 31, 2012, we had no material tenants in bankruptcy. Our revenue and cash available for distribution could be materially adversely affected if any of our significant tenants were to become bankrupt or insolvent, or suffer a downturn in its business, or fail to renew its lease or renew on terms less favorable to us than its current terms.

We are exposed to potential risks from errors in our financial reporting systems and controls, including the potential for material misstatements in our consolidated financial statements.

Section 404 of the Sarbanes-Oxley Act of 2002 requires companies to evaluate their internal control over financial reporting. We received an unqualified opinion regarding the effectiveness of our internal control over financial reporting as of December 31, 2012. However, we cannot be certain that our independent registered public accounting firm will issue unqualified reports in the future.

Our ability to manage our operations and growth will require us to improve our operational, financial and management controls, as well as our internal reporting systems and controls. We may not be able to implement improvements to our internal reporting systems and controls in an efficient and timely manner. In addition, internal reporting systems and controls are subject to human error.

Table of Contents

Risks Related to the Real Estate Industry

Illiquidity of real estate investments, particularly our data centers, could significantly impede our ability to respond to adverse changes in the performance of our properties, which could harm our financial condition.

Because real estate investments are relatively illiquid, our ability to promptly sell one or more properties in our portfolio in response to adverse changes in the real estate market or in the performance of such properties may be limited, thus harming our financial condition. The real estate market is affected by many factors that are beyond our control, including:

- adverse changes in national and local economic and market conditions;
- changes in interest rates and in the availability, cost and terms of debt financing;
- changes in governmental laws and regulations, fiscal policies and zoning ordinances and costs of compliance therewith;
- the ongoing cost of capital improvements that are not passed onto our customers, particularly in older structures;
- changes in operating expenses; and
- civil unrest, acts of war, terrorist attacks and natural disasters, including earthquakes and floods, which may result in uninsured and underinsured losses.

The risks associated with the illiquidity of real estate investments are even greater for our data center properties. Our data centers are highly specialized real estate assets containing extensive electrical and mechanical systems that are uniquely designed to house and maintain our customers' equipment and, as such, have little, if any, traditional office space. As a result, most of our data centers are not suited for use by customers as anything other than as data centers and major renovations and expenditures would be required in order for us to re-lease data center space for more traditional commercial or industrial uses, or for us to sell a property to a buyer for use other than as a data center.

Environmental problems are possible and can be costly.

Environmental liabilities could arise and have a material adverse effect on our financial condition and performance. Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and remediate hazardous or toxic substances or petroleum product releases at or from the property. In addition, we could incur costs to comply with such laws and regulations, the violation of which could lead to substantial fines and penalties.

We may have to pay governmental entities or third parties for property damage and for investigation and remediation costs that they incurred in connection with any contamination at our current and former properties without regard to whether we knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination, each person covered by these environmental laws may be held responsible for all of the clean-up costs incurred.

Some of our properties contain or may contain asbestos-containing building materials. Environmental laws may impose fines and penalties on building owners or operators who fail to properly manage and maintain these materials, notify and train persons who may come into contact with asbestos and undertake special precautions, and third parties could potentially seek recovery from owners or operators for any personal injury associated with exposure to asbestos-containing building materials.

Some of our properties may also contain or develop harmful mold or suffer from other air quality issues. As a result, the presence of significant mold or other airborne contaminants at any of our properties could require us to undertake a costly remediation program to contain or remove the mold or other airborne contaminants from the affected property or increase indoor ventilation. In addition, the presence of significant mold or other airborne contaminants could expose us to liability from our customers, employees of our customers and others if property damage or health concerns arise.

Table of Contents

We may incur significant costs complying with the Americans with Disabilities Act, or ADA, and similar laws, which could materially adversely affect our financial condition and operating results.

Under the ADA, all places of public accommodation must meet federal requirements related to access and use by disabled persons. A number of additional federal, state and local laws may also require modifications to our properties. We have not conducted an audit or investigation of all of our properties to determine our compliance with the ADA. If one of our properties is not in compliance with the ADA, we would be required to incur additional costs to bring the property into compliance. Additional federal, state and local laws may require modifications to our properties, or restrict our ability to renovate our properties. We cannot predict the ultimate amount of the cost of compliance with the ADA or other legislation. If we incur substantial costs to comply with the ADA and any other similar legislation, our financial condition and results of operations could be materially adversely affected.

We may be adversely affected by regulations related to climate change.

Climate change regulation is a rapidly developing area. Congress is currently considering new laws relating to climate change, including potential cap-and-trade systems, carbon taxes and other requirements relating to reduction of carbon footprints and/or greenhouse gas emissions. Other countries have enacted climate change laws and regulations and the United States has been involved in discussions regarding international climate change treaties. The U.S. Environmental Protection Agency, or EPA, and some of the states and localities in which we operate, have also enacted certain climate change laws and regulations and/or have begun regulating carbon footprints and greenhouse gas emissions. Although these laws and regulations have not had an adverse effect on our business to date, they could limit our ability to develop new facilities or result in substantial compliance costs, retrofit costs and construction costs, including capital expenditures for environmental control facilities and other new equipment. We could also face a negative impact on our reputation with the public if we violate climate change laws or regulations.

Risks Related to Our Organizational Structure

Our Board of Directors may change our major corporate, investment and financing policies without stockholder approval and those changes may adversely affect our business.

Our Board of Directors will determine our major corporate policies, including our acquisition, investment, financing, growth, operations, levels of indebtedness and distribution policies and whether to maintain our status as a REIT. Our Board of Directors may alter or eliminate our current corporate policies, including our policy on borrowing at any time without stockholder approval. Accordingly, while our stockholders have the power to elect or remove directors, our stockholders will have limited direct control over changes in our policies and those changes could adversely affect our business, financial condition, results of operations, the market price of our common stock and our ability to make distributions to our stockholders.

While the Funds and their affiliates do not control our company, they own a majority of our Operating Partnership and have the right initially to nominate two directors, and their interests may differ from or conflict with the interests of our stockholders.

Edgar Filing: CoreSite Realty Corp - Form 10-K

As of December 31, 2012, the Funds or their affiliates had an aggregate beneficial ownership interest in our Operating Partnership of approximately 55.2% which, if exchanged for our common stock, would represent approximately 54.4% of our outstanding common stock. In addition, the operating agreement for our Operating Partnership grants the Funds and their affiliates the right to initially nominate two of the seven directors to our Board of Directors. As a result, the Funds and their affiliates have the ability to exercise substantial influence over our company, including with respect to decisions relating to our capital structure, issuing additional shares of our common stock or other equity securities, paying dividends, incurring additional debt, making acquisitions, selling properties or other assets, merging with other companies and undertaking other extraordinary transactions. In any of these matters, the interests of the Funds and their affiliates may differ from or conflict with the interests of our other stockholders. In addition, the Funds and their affiliates are in the business of making investments in companies and may, from time to time, acquire interests in businesses that directly or indirectly compete with our business, as well as businesses that are significant existing or potential customers. The Funds and their affiliates may acquire or seek to acquire assets that we seek to acquire and, as a result, those acquisition opportunities may not be available to us or may be more expensive for us to pursue.

Table of Contents

Our charter and bylaws contain provisions that may delay, defer or prevent an acquisition of our common stock or a change in control, which may not be in the best interests of our stockholders.

Our charter and bylaws contain a number of provisions, the exercise or existence of which could delay, defer or prevent a transaction or a change in control that might involve a premium price for our stockholders or otherwise be in their best interests, including the following:

- ***Our Charter Contains Restrictions on the Ownership and Transfer of Our Stock.*** In order to assist us in complying with the limitations on the concentration of ownership of REIT stock imposed by the Code on REITs, our charter generally prohibits any person or entity (other than a person who or entity that has been granted an exception as described below) from actually or constructively owning more than 9.8% (by value or by number of shares, whichever is more restrictive) of our common stock, 9.8% (by value or by number of shares, whichever is more restrictive) of our outstanding shares of any series of preferred stock, or more than 9.8% (by value) of our capital stock. The value and number of the outstanding shares of common stock and preferred stock, and the value of the outstanding shares of capital stock shall be determined by the Board of Directors in good faith, which shall be conclusive for all purposes. We refer to these restrictions as the ownership limits. Our charter permits our Board of Directors to make, and our Board of Directors has made, certain exceptions to these ownership limits, where our Board of Directors has determined that such exceptions would not cause us to fail to qualify as a REIT. Our Board of Directors has granted exemptions from the ownership limits to the Funds and their affiliates, as well as to one registered broker-dealer who holds shares of our common stock for the benefit of multiple shareholders, none of whom individually holds more than 9.8% of our capital stock, and one registered broker-dealer with respect solely to shares of our preferred stock. Any attempt to own or transfer shares of our capital stock in excess of the ownership limits without the consent of our Board of Directors will result in the automatic transfer of the shares (and all dividends thereon) to a charitable trust. These ownership limitations may prevent a third party from acquiring control of us if our Board of Directors does not grant an exemption from the ownership limitations, even if our stockholders believe the change in control is in their best interests.

- ***Our Charter Grants Our Board of Directors the Right to Classify or Reclassify Any Unissued Shares of Capital Stock, Increase or Decrease the Authorized Number of Shares and Establish the Preference and Rights of Any Preferred Stock without Stockholder Approval.*** Our charter provides that the total number of shares of stock of all classes that we currently have authority to issue is 120,000,000, initially consisting of 100,000,000 shares of common stock and 20,000,000 shares of preferred stock. Our Board of Directors has the authority, without a stockholders' vote, to classify or reclassify any unissued shares of stock, including common stock, into preferred stock or vice versa, to increase or decrease the authorized number of shares of common stock and preferred stock and to establish the preferences and rights of any preferred stock or other class or series of shares to be issued. Because our Board of Directors has the power to establish the preferences and rights of additional classes or series of stock without a stockholders' vote, our Board of Directors may give the holders of any class or series of stock preferences, powers and rights, including voting rights, senior to the rights of holders of existing stock.

Certain provisions of Maryland law may limit the ability of a third party to acquire control of us.

Certain provisions of the Maryland General Corporation Law, or MGCL, may have the effect of inhibiting a third party from making a proposal to acquire us or of impeding a change of control under circumstances that otherwise could provide our common stockholders with the opportunity to realize a premium over the then-prevailing market price of such shares, including:

- ***business combination*** provisions that, subject to limitations, prohibit certain business combinations between us and an interested stockholder (defined generally as any person who beneficially owns 10% or more of the voting power of our outstanding shares of voting stock or an affiliate or associate of the corporation who, at any time within the two-year period immediately prior to the date in question, was the

Edgar Filing: CoreSite Realty Corp - Form 10-K

beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation) or an affiliate of any interested stockholder for five years after the most recent date on which the stockholder becomes an interested stockholder and thereafter imposes two super-majority stockholder voting requirements on these combinations; and

- **control share** provisions that provide that control shares of our company (defined as voting shares of stock which, when aggregated with all other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a control share acquisition (defined as the direct or indirect acquisition of ownership or control of control shares) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all of the votes entitled to be cast on the matter, excluding all interested shares.

We have opted out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL, by

Table of Contents

resolution of our Board of Directors and, in the case of the control share provisions of the MGCL, by a provision in our bylaws. However, our Board of Directors may elect to opt into these provisions, if approved by our stockholders by the affirmative vote of a majority of votes cast and with the consent of the Funds or their affiliates, provided that the consent of the Funds will not be required unless, in the case of the control share provisions, such provisions would apply to the Funds and their affiliates or in either case at such time they own less than 10% of our outstanding common stock (assuming all operating partnership units are exchanged into common stock).

Additionally, Title 3, Subtitle 8 of the MGCL permits our Board of Directors, without stockholder approval and regardless of what is currently provided in our charter or bylaws, to implement certain takeover defenses, such as a classified board, some of which we do not yet have.

Preferred stock is senior to our common stock upon liquidation and for the purpose of distributions and may cause the market price of our common stock to decline.

In December 2012, we sold 4.6 million shares of 7.25% Series A Cumulative Redeemable Preferred Stock in an underwritten public offering. Upon liquidation, holders of our shares of preferred stock will receive a distribution of our available assets prior to the holders of our common stock. Additional equity offerings may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. As acquisition or development opportunities arise from time to time, we may issue additional shares of common stock or preferred stock to raise the capital necessary to finance these acquisitions or developments or may issue common stock or preferred stock or OP units, which are redeemable for, at our option, cash or our common stock on a one-to-one basis, to acquire such assets. Such issuances could result in dilution of stockholders' equity. Thus, our stockholders bear the risk of our future offerings reducing the market price of our common stock and diluting their interest.

Risks Related to Our Status as a REIT

Failure to qualify as a REIT would have material adverse consequences to us and the value of our stock.

We have elected to be taxed and to operate in a manner that will allow us to qualify as a REIT for federal income tax purposes under the Code. However, we cannot assure you that we will remain qualified as a REIT. If, in any taxable year, we lose our REIT status, we will face serious tax consequences that would substantially reduce our cash available for distribution to you for each of the years involved because:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and we would be subject to federal income tax, including any alternative minimum tax, at regular corporate rates;
- we could be subject to possibly increased state and local taxes; and

Edgar Filing: CoreSite Realty Corp - Form 10-K

- unless we are entitled to relief under applicable statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

Our failure to qualify as a REIT could also impair our ability to expand our business and raise capital, and would materially adversely affect the value of our common stock and preferred stock.

We have limited operating history as a REIT and a public company, which could hinder our ability to successfully manage our business.

We have limited operating history as a REIT and a public company. Although certain of our executive officers and directors have experience in the real estate industry, and Mr. Ray, our President and Chief Executive Officer, Mr. Finnin, our Chief Financial Officer, and Derek McCandless, our General Counsel have considerable experience with publicly traded REITs, there is no assurance that our past experience will be sufficient to operate a business in accordance with the Code requirements for REIT qualification or in accordance with the requirements of the SEC and the NYSE for public companies. We are required to develop and implement substantial control systems and procedures in order to qualify and maintain our qualification as a REIT, satisfy our periodic and current reporting requirements under applicable SEC regulations and comply with NYSE listing standards. As a result, we incur significant legal, accounting and other expenses that we did not incur as a private company and our management and other personnel need to devote a substantial amount of time to comply with these rules and regulations and establish the corporate infrastructure and controls demanded of a publicly traded REIT. If our finance and accounting organization is unable for any reason to respond adequately to the demands of being a publicly held company, the quality and timeliness of our financial reporting may suffer and we could experience significant deficiencies or material weaknesses in our disclosure controls and procedures or in our internal control over financial reporting. An inability to establish and maintain effective disclosure controls and procedures and internal control over

Table of Contents

financial reporting could cause us to fail to meet our reporting obligations under the Exchange Act on a timely basis or result in material misstatements or omissions in our Exchange Act reports.

Failure to qualify as a domestically controlled REIT could subject our non-U.S. stockholders to adverse federal income tax consequences.

We will remain a domestically controlled REIT if, at all times during a specified testing period, less than 50% in value of our shares is held directly or indirectly by non-U.S. stockholders. However, because our shares are publicly traded, we cannot guarantee that we will maintain the qualifications to be a domestically-controlled REIT. If we fail to qualify as a domestically-controlled REIT, our non-U.S. stockholders that otherwise would not be subject to federal income tax on the gain attributable to a sale of our shares of common stock would be subject to taxation upon such a sale if either (1) the shares of common stock were not considered to be regularly traded under applicable Treasury Regulations on an established securities market, such as the NYSE, or (2) the selling non-U.S. stockholder owned, actually or constructively, more than 5% in value of the outstanding shares of common stock being sold during specified testing periods. If gain on the sale or exchange of our shares of common stock was subject to taxation for these reasons, the non-U.S. stockholder would be subject to regular U.S. income tax with respect to any gain on a net basis in a manner similar to the taxation of a taxable U.S. stockholder, subject to any applicable alternative minimum tax and special alternative minimum tax in the case of nonresident alien individuals, and corporate non-U.S. stockholders may be subject to an additional branch profits tax.

Our cash available for distribution to stockholders may not be sufficient to pay distributions at expected levels or at all, and we may be required to borrow funds on a short-term basis during unfavorable market conditions.

In order to maintain our qualification as a REIT, we are required under the Code to distribute at least 90% of our net taxable income annually to our stockholders. In any period our net taxable income may be greater than our cash flow from operations, requiring us to fund such distributions from other sources, including borrowed funds, even if the market conditions are not favorable for these borrowings. In addition, we may become party to debt agreements that include cash management or similar provisions, pursuant to which revenues generated by properties subject to such indebtedness are immediately, or upon the occurrence of certain events, swept into an account for the benefit of the lenders under such debt agreements, which revenues would typically only become available to us after the funding of reserve accounts for, among other things, debt service, taxes, insurance and leasing commissions. In any event, if our properties do not generate sufficient cash flow to satisfy our REIT distribution obligations, we may be required to fund distributions from working capital, borrowings under our revolving credit facility, the sale of assets or debt or equity financing, some or all of which may not be available or may not be available on favorable market conditions. As a result, any failure to generate cash greater than our REIT distribution obligation could have a material adverse effect on the price of our common stock.

Applicable REIT laws may restrict certain business activities.

As a REIT we are subject to various restrictions on our income, assets and activities. These include restrictions on our ability to pursue certain strategic acquisitions or business combinations and our ability to enter into other lines of business. Due to these restrictions, we anticipate that we will conduct certain business activities, such as interconnection services, in one or more taxable REIT subsidiaries. Our taxable REIT subsidiaries are taxable as regular C corporations and are subject to federal, state, local and, if applicable, foreign taxation on their taxable income at applicable corporate income tax rates. However, we may still be limited in the business activities we can pursue.

Despite our REIT status, we remain subject to various taxes.

Notwithstanding our status as a REIT, we will be subject to certain federal, state and local taxes on our income and property. For example, we will pay tax on certain types of income that we do not distribute and we will incur a 100% excise tax on transactions with our TRS entities that are not conducted on an arm's length basis. Moreover, our TRS entities are taxable as a regular C corporation and will pay federal, state and local income tax on its net income at the applicable corporate rates.

Table of Contents

If the structural components of our properties were not treated as real property for purposes of the REIT qualification requirements, we would fail to qualify as a REIT.

A significant portion of the value of our properties is attributable to structural components related to the provision of electricity, heating, ventilation and air conditioning, humidification regulation, security and fire protection, and telecommunication services. We have received a private letter ruling from the Internal Revenue Service (the IRS), holding, among other things, that our buildings, including the structural components, constitute real property for purposes of the REIT qualification requirements. We are entitled to rely upon that private letter ruling only to the extent that we did not misstate or omit a material fact in the ruling request we submitted to the IRS and that we operate in the future in accordance with the material facts described in that request. Moreover, the IRS, in its sole discretion, may revoke the private letter ruling. If our structural components are subsequently determined not to constitute real property for purposes of the REIT qualification requirements, including as a result of our being unable to rely upon the private letter ruling or the IRS revoking that ruling, we would fail to qualify as a REIT, which could have a material adverse effect on the value of our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The information set forth under the caption "Our Portfolio" in Item 1 of this Annual Report is incorporated by reference herein.

ITEM 3. LEGAL PROCEEDINGS

From time to time, we are party to a variety of legal proceedings arising in the ordinary course of business. We believe that, with respect to any such matters that we are currently a party to, the ultimate disposition of any such matter will not result in a material adverse effect on us.

As previously disclosed, we were involved in litigation in the Colorado District Court in Denver, Colorado with Ari Brumer, the former general counsel of our affiliate, CoreSite, LLC, arising out of the termination of Mr. Brumer's employment. The allegations made by Mr. Brumer in his complaint against us, certain of our affiliates, and certain affiliates of The Carlyle Group also have been previously reported, as have been the counterclaims asserted against Mr. Brumer by us and certain of our affiliates. On December 6, 2012, the parties reached binding settlement with Mr. Brumer pursuant to which, following full documentation of the binding settlement terms on January 10, 2013, we paid Mr. Brumer a cash payment in an amount that we do not consider to be material. We do not consider this settlement as having a material adverse effect on our business, financial position, liquidity or results of operations. We recorded the settlement expense in general and administrative expense for the year ended December 31, 2012.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****Market Information and Holders**

Our common stock has been listed and is traded on the New York Stock Exchange (NYSE) under the symbol COR since September 23, 2010. As of February 22, 2013, we had eight holders of record of our common stock. This figure does not reflect the beneficial ownership of shares held in nominee name. The following table sets forth, for the periods indicated, the high and low sale prices in dollars on the NYSE for our common stock and the dividends we declared with respect to the periods indicated.

	Price Range		Dividends
	High	Low	Declared
2012:			
Fourth Quarter	\$ 27.99	\$ 20.50	\$ 0.27
Third Quarter	\$ 28.00	\$ 25.36	\$ 0.18
Second Quarter	\$ 26.10	\$ 22.53	\$ 0.18
First Quarter	\$ 24.74	\$ 17.96	\$ 0.18
2011:			
Fourth Quarter	\$ 18.38	\$ 12.34	\$ 0.18
Third Quarter	\$ 17.96	\$ 13.63	\$ 0.13
Second Quarter	\$ 17.76	\$ 14.88	\$ 0.13
First Quarter	\$ 16.18	\$ 13.27	\$ 0.13

Distributions and Dividends

In order to comply with the REIT requirements of the Code, we generally are required to make annual distributions to our shareholders of at least 90% of our taxable net income. Our common share distribution policy is to distribute as dividends a percentage of our cash flow that ensures that we will meet the distribution requirements of the Code and that allows us to maximize the cash retained for meeting other cash needs, such as capital improvements and other investment activities.

We have made distributions in the form of dividends in every quarter since the completion of our IPO. While we plan to continue to make quarterly distributions, no assurances can be made as to the frequency or amounts of any future distributions. The payment of common share distributions is dependent upon our financial condition, operating results and REIT distribution requirements and may be adjusted at the discretion of our Board of Directors during the year. Dividends declared in the past two fiscal years are noted in the chart above.

Table of Contents**Performance Graph**

The following line graph sets forth, for the period from September 23, 2010, through December 31, 2012, a comparison of the percentage change in the cumulative total stockholder return on our common stock compared to the cumulative total return of the S&P 500 Market Index and the MSCI US REIT Index (RMS). The graph assumes that \$100 was invested on September 23, 2010, in shares of our common stock and each of the aforementioned indices and that all dividends were reinvested without the payment of any commissions. There can be no assurance that the performance of our shares will continue in line with the same or similar trends depicted in the graph below.

Pricing Date	COR	S&P 500	MSCI US REIT
September 23, 2010	\$ 100.0	\$ 100.0	\$ 100.0
September 30, 2010	\$ 102.4	\$ 101.5	\$ 101.7
December 31, 2010	\$ 86.0	\$ 112.4	\$ 109.2
March 31, 2011	\$ 100.7	\$ 119.1	\$ 116.3
June 30, 2011	\$ 105.1	\$ 119.2	\$ 120.5
September 30, 2011	\$ 92.8	\$ 102.6	\$ 103.0
December 31, 2011	\$ 116.4	\$ 114.8	\$ 118.7
March 31, 2012	\$ 155.2	\$ 129.2	\$ 131.5
June 30, 2012	\$ 171.1	\$ 125.7	\$ 136.4
September 30, 2012	\$ 179.8	\$ 133.7	\$ 136.4
December 31, 2012	\$ 186.4	\$ 133.2	\$ 140.0

SALES OF UNREGISTERED EQUITY SECURITIES

None.

REPURCHASES OF EQUITY SECURITIES

None.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

On September 28, 2010, we closed our IPO and completed the acquisition of our Predecessor and the CoreSite Acquired Properties. As such, the financial condition and results of operations for the entities acquired by our Predecessor in connection with the IPO and related formation transactions are only included in the condensed consolidated financial statements since the date of the transactions. Prior to September 28, 2010, the date of these transactions, the condensed consolidated financial statements include only the activities and capital structure of our Predecessor.

(in thousands except per share data)	The Company		Historical Predecessor			
	Year ended December 31, 2012	Year ended December 31, 2011	For the period September 28, 2010, through December 31, 2010	For the period January 1, 2010, through September 27, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Statement of Operations Data						
Operating revenues	\$ 206,934	\$ 172,846	\$ 38,352	\$ 35,557	\$ 28,831	\$ 15,581
Operating expenses:						
Property operating and maintenance	61,235	55,049	12,107	14,272	13,954	11,258
Real estate taxes and insurance	8,765	9,119	1,642	1,262	1,787	2,125
Management fees to related party				3,582	2,244	1,523
Depreciation and amortization	64,327	68,967	19,146	11,848	11,193	7,966
Sales and marketing	10,330	5,744	1,341	125	135	170
General and administrative	25,910	21,846	4,987	2,258	1,401	1,325
Rent	18,711	18,336	4,551	2,177	2,816	2,624
Transaction costs	613	875	3,275			
Total operating expenses	189,891	179,936	47,049	35,524	33,530	26,991
Operating income (loss)	17,043	(7,090)	(8,697)	33	(4,699)	(11,410)
Gain on early extinguishment of debt		939				
Interest income	13	117	77	2	3	17
Interest expense	(5,236)	(5,275)	(2,325)	(1,590)	(2,343)	(2,495)
Income (loss) before income taxes	11,820	(11,309)	(10,945)	(1,555)	(7,039)	(13,888)
Income tax (expense) benefit	(1,104)	530	223			
Net income (loss)	10,716	(10,779)	(10,722)	(1,555)	(7,039)	(13,888)
Net income (loss) attributable to noncontrolling interests	5,668	(6,168)	(7,371)			
Net income (loss) attributable to CoreSite Realty Corporation	\$ 5,048	\$ (4,611)	\$ (3,351)	\$ (1,555)	\$ (7,039)	\$ (13,888)
Earnings Per Share						
Net income (loss) per share attributable to common shares						
Basic	\$ 0.22	\$ (0.24)	\$ (0.17)			
Diluted	0.22	(0.24)	(0.17)			
Weighted average common shares outstanding						
Basic	20,537,946	19,609,375	19,458,605			
Diluted	20,992,290	19,609,375	19,458,605			
Dividends declared per common share	\$ 0.81	\$ 0.57	\$ 0.13			

The Company

Historical Predecessor
December 31,

Edgar Filing: CoreSite Realty Corp - Form 10-K

Balance Sheet Data	December 31, 2012	December 31, 2011	December 31, 2010	2009	2008
Net investments in real estate	\$ 721,633	\$ 674,168	\$ 589,679	\$ 218,055	\$ 197,493
Total Assets	845,332	808,226	833,026	239,420	213,846
Revolving credit facility		5,000			
Mortgages and notes payable	59,750	116,864	124,873	62,387	52,530
Noncontrolling interests in operating partnership	372,544	387,379	422,226		
Stockholders' equity / members equity	710,773	232,808	232,239	162,338	149,103

Table of Contents

(in thousands)	The Company		Historical Predecessor			
	Year ended December 31, 2012	Year ended December 31, 2011	For the period September 28, 2010 through December 31, 2010	For the period January 1, 2010 through September 27, 2010	Year ended December 31, 2009	Year ended December 31, 2008
Net income (loss)	\$ 10,716	\$ (10,779)	\$ (10,722)	\$ (1,555)	\$ (7,039)	\$ (13,888)
Real estate depreciation and amortization	61,700	67,673	18,936	11,748	11,193	7,966
Preferred Stock Dividends	(440)					
FFO attributable to common shares and units	\$ 71,976	\$ 56,894	\$ 8,214	\$ 10,193	\$ 4,154	\$ (5,922)

(1) We consider funds from operations (FFO), a non-GAAP measure, to be a supplemental measure of our performance which should be considered along with, but not as an alternative to, net income and cash provided by operating activities as a measure of operating performance and liquidity. We calculate FFO in accordance with the standards established by the National Association of Real Estate Investment Trusts (NAREIT). FFO represents net income (loss) (computed in accordance with GAAP), excluding gains (or losses) from sales of property and impairment write-downs of depreciable real estate, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures.

Our management uses FFO as a supplemental performance measure because, in excluding real estate related depreciation and amortization and gains and losses from property dispositions, it provides a performance measure that, when compared year over year, captures trends in occupancy rates, rental rates and operating costs.

We offer this measure because we recognize that FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO excludes depreciation and amortization and captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and capitalized leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our financial condition and results from operations, the utility of FFO as a measure of our performance is limited. FFO is a non-GAAP measure and should not be considered a measure of liquidity, an alternative to net income, cash provided by operating activities or any other performance measure determined in accordance with GAAP, nor is it indicative of funds available to fund our cash needs, including our ability to pay dividends or make distributions. In addition, our calculations of FFO are not necessarily comparable to FFO as calculated by other REITs that do not use the same definition or implementation guidelines or interpret the standards differently from us. Investors in our securities should not rely on these measures as a substitute for any GAAP measure, including net income.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our results of operations, financial condition and liquidity in conjunction with our consolidated financial statements and the related notes included elsewhere in this report. Some of the information contained in this discussion and analysis or set forth elsewhere in this report, including information with respect to our plans and strategies for our business, statements regarding the industry outlook, our expectations regarding the future performance of our business and the other non-historical statements contained herein are forward-looking statements. See Cautionary Note Regarding Forward-Looking Statements. You should also review the Risk Factors in Item 1A. of this report for a discussion of important factors that could cause actual results to differ materially from the results described herein or implied by such forward-looking statements.

Overview

We are an owner, developer and operator of strategically located data centers in some of the largest and fastest growing data center markets in the United States, including Los Angeles, the San Francisco Bay and Northern Virginia areas, Chicago, Boston, New York City, Miami and Denver. Our high-quality data centers feature ample and redundant power, advanced cooling and security systems and many are points of dense network interconnection. We are able to satisfy the full spectrum of our customers' data center requirements by providing data center space ranging in size from an entire building or large dedicated suites to a cage or cabinet. We lease our space to a broad and growing customer base ranging from enterprise customers to less space-intensive, more network-centric customers. Our operational flexibility allows us to selectively lease data center space to its highest and best use depending on customer demand, regional economies and property characteristics.

As of December 31, 2012, with the exception of NY2, which was acquired February 7, 2013, our property portfolio included 14 operating data center facilities and multiple development projects, which collectively comprise over 2.7 million NRSF, of which approximately 1.2 million NRSF is existing data center space. These properties include 358,929 NRSF of space readily available for lease, of which 278,120 NRSF is available for lease as data center space. Including the space currently under construction or in preconstruction at December 31, 2012, vacant space and land targeted for future development and NY2, we own land and buildings sufficient to develop over 1.2 million NRSF of data center space, comprised of (1) 94,650 NRSF space under construction as of December 31, 2012, (2) 216,250 NRSF planned to commence development during 2013 at NY2 and on land that we currently own at VA2 and our Santa Clara Campus, and (3) 894,286 NRSF at multiple facilities, as shown on the development table on page 9, that may be developed over time based on market supply, demand and our financing capabilities.

Results of Operations

Prior to the closing of our IPO on September 28, 2010, we had no corporate activity other than the issuance of shares of common stock in connection with the initial capitalization of our company. The results of operations for the year ended December 31, 2010, reflect the financial condition and results of operations of our Predecessor, together with the CoreSite Acquired Properties, from September 28, 2010, the date of acquisition. The contribution or acquisition of interests in the CoreSite Acquired Properties was accounted for as an acquisition by our Predecessor under the acquisition method of accounting and recognized at the estimated fair value of acquired assets and assumed liabilities on the date of the contribution. Our results of operations may therefore not be indicative of our future results of operations.

Factors which May Influence our Results of Operations

Operating Revenue. Our ability to increase operating revenue generated by the properties in our portfolio, including rental, interconnection and power revenue, depends principally on our ability (i) to maintain the historical occupancy rates of currently leased space (ii) to lease currently available space and space that becomes available from leases that expire or are terminated at or in excess of current rental rates and (iii) to increase the number of interconnections provided to current customers. As of December 31, 2012, our operating data center facilities are 77.0% leased. Negative trends in one or more of these factors could adversely affect our operating revenue in future periods. Future economic downturns or regional downturns affecting our markets or downturns in the technology industry that impair our ability to renew or re-lease space and the ability of our customers to fulfill their lease commitments, as in the case of customer bankruptcies, could adversely affect our ability to maintain or increase operating revenue at our properties.

As of December 31, 2012, we had 1,315 leases with over 750 customers, the majority of our leases contained annual base rent escalations that were either fixed (generally ranging from 2% to 4%) or indexed based on a consumer price index or other similar inflation related index.

Operating expenses. Our operating expenses consist of utilities, site maintenance, real estate taxes and insurance, as well as rental expenses on our properties in which we hold a leasehold interest. Our buildings require significant power to support data center operations. Substantially all of our data center NRSF is subject to the breakered-amp or sub-metered (branch circuit monitoring)

Table of Contents

pricing models. We recover all or substantially all of our electricity costs for our leased data center space under either model. Under the sub-metered model, a customer pays us monthly for the power attributable to its equipment in the data center as well as for its ratable allocation of the power used to provide the cooling, lighting, security and other requirements supporting the data center, in each case, at a rate substantially equivalent to our then current cost of electricity. Under the breaker-amp model, a customer pays a fixed monthly fee per committed available ampere of connected power. The extent to which this fixed monthly fee correlates to the monthly amount we pay to our utility provider for electricity at each data center facility varies depending upon the amount of power each customer utilizes each month relative to the amount of committed power purchased.

Scheduled Lease Expirations. Our ability to re-lease expiring space at rental rates equal to or in excess of current rental rates materially affects our results of operations. As of December 31, 2012, approximately 358,929 NRSF of our portfolio represented currently available space. Leases representing approximately 16.1% and 19.0% of the NRSF across our portfolio are scheduled to expire during the years ending December 31, 2013, and 2014, respectively. The leases scheduled to expire in 2013 and 2014 also represent approximately 24.5% and 24.6%, respectively, of our annualized rent as of December 31, 2012.

We continue to see strong demand in our markets for data center space and expect the rental rates we are likely to achieve on any new or renewed leases for 2013 and 2014 expirations will generally be higher than the rates currently being paid for the same space. For the year ended December 31, 2012, rents on re-leased/renewed space increased by an average of 12.1% on a GAAP basis compared to the expiring rents for the same space. Our past performance may not be indicative of future results, and we cannot assure you that leases will be renewed or that our properties will be re-leased at all or at rental rates equal to or above the current average rental rates. Further, re-leased/renewed rental rates in a particular market may not be consistent with rental rates across our portfolio as a whole due to a number of factors, including local real estate conditions, local supply and demand for data center space, the condition of the property and whether the property, or space within the property, has been developed.

Acquisitions, Development and Financing. Our ability to grow rental income depends on our ability to acquire, develop and lease data center space at favorable rental rates. As of December 31, 2012, we had approximately 1.2 million NRSF of future development and under development space or approximately 43.2% of the total space in our portfolio. We generally fund the cost of data center development from additional capital, which, for future developments, we would expect to obtain primarily through our revolving credit facility and then other unsecured and secured borrowings, construction financings and the issuance of additional equity and debt securities, when market conditions permit. If we cannot obtain capital when needed or on favorable terms, we may not be able to acquire or develop properties when strategic opportunities arise.

Conditions in Significant Markets. Our operating properties are located in Los Angeles, the San Francisco Bay and Northern Virginia areas, Boston, Chicago, New York City, Miami and Denver. These markets comprised 30.6%, 27.4%, 19.1%, 8.3%, 8.2%, 4.2%, 1.4%, and 0.8%, of our annualized rent as of December 31, 2012. Positive or negative changes in conditions in these markets will impact our overall performance.

Year Ended December 31, 2012, Compared to Year Ended December 31, 2011

	Year ended December 31, 2012	Year ended December 31, 2011 (in thousands)	\$ Change	% Change
Operating Revenue	\$ 206,934	\$ 172,846	\$ 34,088	19.7%

Edgar Filing: CoreSite Realty Corp - Form 10-K

Operating Expense	189,891	179,936	9,955	5.5%
Interest Expense	5,236	5,275	(39)	-0.7%
Net income (loss)	10,716	(10,779)	21,495	199.4%

Operating Revenue. Operating revenue for the year ended December 31, 2012, was \$206.9 million. This includes rental revenue of \$123.4 million, power revenue of \$53.6 million, interconnection of \$20.9 million and tenant reimbursement and other revenue of \$9.1 million. This compares to operating revenue of \$172.8 million for the year ended December 31, 2011. The increase of \$34.1 million, or 19.7%, was partially due to the placement into service of three computer rooms at our newest data center, SV4 during 2012 and the completion and subsequent leasing of expansion space at VA1 and CH1. Approximately 109,000 NRSF of new and expansion leases commenced during 2012 and we achieved 12.1% rent growth on lease renewals. Also, we grew our interconnection services and increased interconnection prices during 2012.

Edgar Filing: CoreSite Realty Corp - Form 10-K

Table of Contents

Operating Expenses. Operating expenses for the year ended December 31, 2012, were \$189.9 million compared to \$179.9 million for the year ended December 31, 2011. The increase of \$10.0 million, or 5.5%, was primarily due to additional property operating and maintenance expense associated with the placement into service of three computer rooms at our newest data center, SV4, during 2012, the completion of expansion space at VA1 and CH1 and an increase in sales and marketing expense and general and administrative expense due to increased employee head count. Additionally, general and administrative expense increased by \$1.8 million due to the settlement of two outstanding litigation matters. The increases were partially offset by a decrease in depreciation and amortization expense due to the short-term useful life of the lease intangibles acquired in connection with our IPO.

Interest Expense. Interest expense, including amortization of deferred financing costs, for the year ended December 31, 2012, was \$5.2 million compared to interest expense of \$5.3 million for the year ended December 31, 2011. The decrease in interest was primarily due to an increase in capitalized interest due to the number of ongoing development projects partially offset by a higher average debt balance during the year ended December 31, 2012.

Net Income (Loss). Net income for the year ended December 31, 2012, was \$10.7 million compared to a net loss of \$10.8 million for the year ended December 31, 2011. The increase of \$21.5 million was primarily due to the increased operating revenue from the placement into service of additional space at several data centers, the increase in the prices and volume of interconnection services and the decrease in depreciation and amortization expense due to the short-term useful life of the lease intangibles acquired in connection with our IPO. These increases were partially offset by the \$10 million increase in operating expenses and a \$0.9 million gain on early extinguishment of debt which occurred during the year ended December 31, 2011.

Year Ended December 31, 2011, Compared to Year Ended December 31, 2010

	Year ended December 31, 2011	The Company For the period September 28, 2010 through December 31, 2010	The Predecessor For the period January 1, 2010 through September 27, 2010 (in thousands)	Total Company and Predecessor Year ended December 31, 2010	\$ Change	% Change
Operating Revenue	\$ 172,846	\$ 38,352	\$ 35,557	\$ 73,909	\$ 98,937	133.9%
Operating Expense	179,936	47,049	35,524	82,573	97,363	117.9%
Interest Expense	5,275	2,325	1,590	3,915	1,360	34.7%
Net loss	(10,779)	(10,722)	(1,555)	(12,277)	1,498	-12.2%

Operating Revenue. Operating revenue for the year ended December 31, 2011, was \$172.8 million. This includes rental revenue of \$108.6 million, power revenue of \$43.4 million, interconnection revenue of \$12.2 million and tenant reimbursement and other revenue of \$8.7 million. This compares to revenue of \$73.9 million for the year ended December 31, 2010. The increase of \$98.9 million, or 133.9%, was due primarily to the acquisition of the CoreSite Acquired Properties on September 28, 2010.

Operating Expenses. Operating expenses for the year ended December 31, 2011, were \$179.9 million compared to \$82.6 million for the year ended December 31, 2010. The increase of \$97.4 million, or 117.9%, was primarily due to the acquisition of the CoreSite Acquired Properties and the resulting internalization of the management function through the acquisition of CoreSite, LLC, our management company. These costs were partially offset by a decrease in transaction costs for potential acquisition deals that did not occur.

Interest Expense. Interest expense, including amortization of deferred financing costs, for the year ended December 31, 2011, was \$5.3 million compared to interest expense of \$3.9 million for the year ended December 31, 2010. The increase in interest expense was due to increased debt balances from the acquisition of the CoreSite Acquired Properties. The increase in interest expense was partially offset by an increase in capitalized interest due to the increase in properties under development.

Net Loss. Net loss for the year ended December 31, 2011, was \$10.8 million compared to a net loss of \$12.3 million for the year ended December 31, 2010. The decreased net loss of \$1.5 million was primarily due to increased operating revenue from the acquisition of the CoreSite Acquired Properties and a reduction in transaction costs associated with our acquisition of the CoreSite Acquired Properties. These increases were partially offset by the acquisition of the CoreSite Acquired Properties and the resulting internalization of the management function through the acquisition of CoreSite, LLC, our management company, and increased interest expense.

Table of Contents

Liquidity and Capital Resources

Discussion of Cash Flows

Year Ended December 31, 2012, Compared to Year Ended December 31, 2011

Net cash provided by operating activities was \$68.6 million for the year ended December 31, 2012, compared to \$61.2 million for the year ended December 31, 2011. The increased cash provided by operating activities of \$7.4 million was primarily due to the placement into service and subsequent leasing of data center space and an increase in the price and volume of interconnection services year-over-year.

Net cash used in investing activities decreased by \$28.8 million to \$83.8 million for the year ended December 31, 2012, compared to \$112.6 million for the year ended December 31, 2011. This decrease was primarily due to a decrease in cash used for capital expenditures related to development of data center space. During the years ended December 31, 2012, and 2011, we placed into service 139,671 NRSF and 65,006 NRSF, respectively. Of the 139,671 NRSF placed into service during the year ended December 31, 2012, a large portion of the development costs were paid during the year ended December 31, 2011.

Net cash provided by financing activities was \$16.7 million for the year ended December 31, 2012, compared to net cash used in financing activities of \$28.3 million for the year ended December 31, 2011. The increase in cash provided by financing activities of \$45.0 million was primarily due to the \$110.8 million proceeds from the sale of our 7.25% Series A Cumulative Redeemable Preferred Stock in December 2012. We used these proceeds to repay outstanding mortgage loans and borrowings under our revolving credit facility during 2012. Also, we increase our dividends paid during 2012.

Analysis of Liquidity and Capital Resources

As of December 31, 2012, we had \$8.1 million of cash and equivalents, excluding \$0.5 million of restricted cash. Restricted cash primarily consists of interest bearing cash deposits required by the terms of our loans and cash impound accounts for real estate taxes and insurance as required by our mortgage loans. During the year ended December 31, 2012, restricted cash decreased by \$8.8 million primarily due to the release of lender held escrows for the SV1 mortgage loan. The loan agreement required us to fund a specified amount of capital improvements at SV1 which were completed during 2012, and the lender released the escrows.

We have an effective shelf registration statement filed on September 28, 2011, that allows us to register unspecified various classes of equity and debt securities. On December 12, 2012, we issued 4.6 million shares of 7.25% Series A Cumulative Redeemable Preferred Stock for total net proceeds, after underwriting discounts and offering expenses, of \$110.6 million, including the proceeds from the exercise of the full underwriters over-allotment option. The net proceeds received were used to repay \$77.8 million of borrowing under our revolving credit facility, the full amount of the mortgage loan payable of \$31.6 million encumbering our VA1 property and for general corporate purposes, including development opportunities.

Our short-term liquidity requirements primarily consist of funds needed for future distributions to common and preferred stockholders and holders of our operating partnership units, interest expense, operating costs including utilities, site maintenance costs, real estate and personal property taxes, insurance, rental expenses and selling, general and administrative expenses and certain capital expenditures, including for the development of data center space during the next 12 months. Subject to our ability to obtain capital with favorable terms, our anticipated development activity over the next 12 months will require approximately \$200 million to \$225 million of investment to expand our operating data center portfolio. We expect to meet our short and long-term liquidity requirements through net cash provided by operations and by incurring additional indebtedness, including by drawing on our revolving credit facility. Subsequent to December 31, 2012, we entered into a Second Amended and Restated Credit Agreement, which increased our borrowing capacity to \$355.0 million. At December 31, 2012, we had no outstanding balance on the revolving credit facility.

Our ability to borrow under the Second Amended and Restated Agreement is subject to ongoing compliance with a number of financial covenants and other customary restrictive covenants. As of December 31, 2012, we were in compliance with the covenants under our Second Amended and Restated Credit Agreement.

Our long-term liquidity requirements primarily consist of the costs to fund the development of the Santa Clara Campus, the One Wilshire Campus, VA2, NY2, future development of other space in our portfolio not currently scheduled, property acquisitions, future distributions to common and preferred stockholders and holders of our operating partnership units, scheduled debt maturities and capital improvements. We expect to meet our long-term liquidity requirements primarily by incurring long-term indebtedness, such as property mortgage loans, and drawing on our revolving credit facility. We also may raise capital in the future through the issuance of additional equity or debt securities, subject to prevailing market conditions, and/or through the issuance of operating partnership units. However, there is no assurance that we will be able to successfully raise additional capital on acceptable terms or at all.

Table of Contents

Inflation

Many of our leases provide for separate real estate tax and operating expense escalations. In addition, many of the leases provide for fixed base rent increases. We believe that inflationary increases may be at least partially offset by the contractual rent increases and expense escalations described above.

Indebtedness

A summary of outstanding indebtedness as of December 31, 2012 and 2011 is as follows (in thousands):