CoreSite Realty Corp
Form 10-Q
October 31, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

For the transition period from to .

Commission file number: 001-34877

CoreSite Realty Corporation

(Exact name of registrant as specified in its charter)

Maryland	**27-1925611**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(866) 777-2673

(Registrant s telephone number, including area code)

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

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 x No o

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 o	Accelerated filer x
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of shares of common stock outstanding at October 29, 2014, was 21,711,368.

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CORESITE REALTY CORPORATION

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited and in thousands except share data)

		September 30, 2014		December 31, 2013
ASSETS				
Investments in real estate:				
Land	$	79,929	$	78,983
Building and building improvements		772,791		717,007
Leasehold improvements		102,267		95,218
		954,987		891,208
Less: Accumulated depreciation and amortization		(200,588)		(155,704)
Net investment in operating properties		754,399		735,504
Construction in progress		171,476		157,317
Net investments in real estate		925,875		892,821
Cash and cash equivalents		9,268		5,313
Accounts and other receivables, net of allowance for doubtful accounts of $436 and $159 as of September 30, 2014, and December 31, 2013, respectively		11,279		10,339
Lease intangibles, net of accumulated amortization of $14,100 and $17,646 as of September 30, 2014, and December 31, 2013, respectively		7,940		11,028
Goodwill		41,191		41,191
Other assets		67,145		55,802
Total assets	$	1,062,698	$	1,016,494
LIABILITIES AND EQUITY				
Liabilities:				
Revolving credit facility	$	205,250	$	174,250
Senior unsecured term loan		100,000		
Mortgage loan payable				58,250
Accounts payable and accrued expenses		38,979		48,978
Accrued dividends and distributions		18,968		18,804
Deferred rent payable		9,196		9,646
Acquired below-market lease contracts, net of accumulated amortization of $4,456 and $4,361 as of September 30, 2014, and December 31, 2013, respectively		5,808		6,681
Prepaid rent and other liabilities		18,161		11,578
Total liabilities		396,362		328,187
Stockholders equity:				
Series A Cumulative Preferred Stock 7.25%, $115,000 liquidation preference ($25.00 per share, $0.01 par value), 4,600,000 shares issued and outstanding as of September 30, 2014,		115,000		115,000

and December 31, 2013				
Common Stock, par value $0.01, 100,000,000 shares authorized and 21,721,807 and 21,387,152 shares issued and outstanding at September 30, 2014, and December 31, 2013, respectively		212		209
Additional paid-in capital		272,771		267,465
Accumulated other comprehensive income		200		
Distributions in excess of net income		(63,084)		(50,264)
Total stockholders equity		325,099		332,410
Noncontrolling interests		341,237		355,897
Total equity		666,336		688,307
Total liabilities and equity	$	1,062,698	$	1,016,494

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Operating revenues:				
Data center revenue:				
Rental revenue	$ 38,315	$ 33,428	$ 110,152	$ 97,092
Power revenue	18,687	15,979	51,264	43,994
Interconnection revenue	9,169	7,441	25,819	21,066
Tenant reimbursement and other	2,328	1,873	6,711	5,432
Office, light industrial and other revenue	2,016	1,914	5,982	5,809
Total operating revenues	70,515	60,635	199,928	173,393
Operating expenses:				
Property operating and maintenance	20,043	17,368	54,866	47,013
Real estate taxes and insurance	3,073	2,226	5,059	6,750
Depreciation and amortization	20,914	16,424	58,300	48,634
Sales and marketing	3,806	3,206	11,141	10,931
General and administrative	7,145	7,045	21,582	20,225
Rent	5,113	5,082	15,249	14,631
Impairment of internal-use software			1,959	
Transaction costs	49	25	62	279
Total operating expenses	60,143	51,376	168,218	148,463
Operating income	10,372	9,259	31,710	24,930
Interest income	1	14	5	18
Interest expense	(1,361)	(708)	(3,949)	(1,930)
Income before income taxes	9,012	8,565	27,766	23,018
Income tax expense	(22)	(56)	(20)	(435)
Net income	$ 8,990	$ 8,509	$ 27,746	$ 22,583
Net income attributable to noncontrolling interests	3,759	3,524	11,730	8,962
Net income attributable to CoreSite Realty Corporation	$ 5,231	$ 4,985	$ 16,016	$ 13,621
Preferred stock dividends	(2,084)	(2,084)	(6,253)	(6,253)
Net income attributable to common shares	$ 3,147	$ 2,901	$ 9,763	$ 7,368
Net income per share attributable to common shares:				
Basic	$ 0.15	$ 0.14	$ 0.46	$ 0.35
Diluted	$ 0.14	$ 0.14	$ 0.45	$ 0.34
Weighted average common shares outstanding				
Basic	21,214,825	20,871,504	21,113,700	20,793,596
Diluted	21,708,759	21,479,971	21,679,931	21,465,710

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited and in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	$ 8,990	$ 8,509	$ 27,746	$ 22,583
Other comprehensive income (loss):				
Unrealized gain (loss) on derivative contracts	397		(357)	
Reclassification of other comprehensive income to interest expense	340		795	
Comprehensive income	9,727	8,509	28,184	22,583
Comprehensive income attributable to noncontrolling interests	4,160	3,524	11,968	8,962
Comprehensive income attributable to CoreSite Realty Corporation	$ 5,567	$ 4,985	$ 16,216	$ 13,621

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(unaudited and in thousands except share data)

	Preferred Stock	Common Shares Number	Common Shares Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Distributions in Excess of Net Income	Total Stockholders Equity	Noncontrolling Interests	Total Equity
Balance at January 1, 2014	$ 115,000	21,387,152	$ 209	$ 267,465	$	$ (50,264)	$ 332,410	$ 355,897	$ 688,307
Issuance of stock awards, net of forfeitures		192,982							
Exercise of stock options		141,673	1	144			145		145
Share-based compensation			2	5,162			5,164		5,164
Dividends declared on preferred stock						(6,253)	(6,253)		(6,253)
Dividends and distributions						(22,583)	(22,583)	(26,628)	(49,211)
Net income						16,016	16,016	11,730	27,746
Other comprehensive income					200		200	238	438
Balance at September 30, 2014	$ 115,000	21,721,807	$ 212	$ 272,771	$ 200	$ (63,084)	$ 325,099	$ 341,237	$ 666,336

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited and in thousands)

	Nine Months Ended September 30, 2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 27,746	$ 22,583
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	58,300	48,634
Amortization of above/below market leases	(438)	(672)
Amortization of deferred financing costs	1,477	1,293
Share-based compensation	4,766	5,337
Bad debt expense	826	241
Changes in operating assets and liabilities:		
Accounts receivable	(1,766)	(1,435)
Deferred rent receivable	(2,728)	(1,660)
Deferred leasing costs	(15,540)	(5,373)
Other assets	35	(2,713)
Accounts payable and accrued expenses	(4,264)	3,361
Prepaid rent and other liabilities	6,582	380
Deferred rent payable	(450)	5,250
Net cash provided by operating activities	74,546	75,226
CASH FLOWS FROM INVESTING ACTIVITIES		
Tenant improvements	(5,040)	(5,214)
Real estate improvements	(82,118)	(117,964)
Acquisition of NY2		(21,889)
Net cash used in investing activities	(87,158)	(145,067)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options	1,555	630
Offering costs	(24)	(27)
Proceeds from revolving credit facility	72,000	108,000
Payments on revolving credit facility	(41,000)	
Proceeds from senior unsecured term loan	100,000	
Repayments of mortgage loans payable	(58,250)	(1,125)
Payments of loan fees and costs	(1,000)	(2,621)
Payments to net settle equity awards	(1,410)	
Dividends and distributions	(55,304)	(42,444)
Net cash provided by financing activities	16,567	62,413
Net change in cash and cash equivalents	3,955	(7,428)
Cash and cash equivalents, beginning of period	5,313	8,130
Cash and cash equivalents, end of period	$ 9,268	$ 702
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest, net of capitalized amounts	$ 2,958	$ 1,250
NON-CASH INVESTING AND FINANCING ACTIVITY		
Construction costs payable capitalized to real estate	$ 13,086	$ 32,291
Accrual of dividends and distributions	$ 18,968	$ 15,051

See accompanying notes to condensed consolidated financial statements.

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CORESITE REALTY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2014

(unaudited)

1. Organization and Description of Business

CoreSite Realty Corporation (the Company, we, or our) was organized in the state of Maryland on February 17, 2010, and is a fully-integrated, self-administered, and self-managed real estate investment trust (REIT). Through our controlling interest in CoreSite, L.P. (our Operating Partnership), we are engaged in the business of owning, acquiring, constructing and managing data centers. As of September 30, 2014, the Company owns a 45.6% common interest in our Operating Partnership and affiliates of The Carlyle Group and others own a 54.4% interest in our Operating Partnership. See additional discussion in Note 8.

2. Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by our management in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in compliance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, these unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of our management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2014, are not necessarily indicative of the expected results for the year ending December 31, 2014. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013. Intercompany balances and transactions have been eliminated.

Use of Estimates

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

Adjustments and Reclassifications

Office, light industrial and other revenue, included within the condensed consolidated statements of operations for the three and nine months ended September 30, 2013, and accrued dividends and distributions, included with the condensed consolidated balance sheet as December 31, 2013, have been reclassified to conform to the 2014 financial statement presentation. In addition, certain other immaterial amounts included in the condensed consolidated financial statements for 2013 have been reclassified to conform to the 2014 financial statement presentation.

Investments in Real Estate

Real estate investments are carried at cost less accumulated depreciation and amortization. The cost of real estate includes the purchase price of property and leasehold improvements. Expenditures for maintenance and repairs are expensed as incurred. Significant renovations and betterments that extend the economic useful lives of assets are capitalized. During land development and construction periods, we capitalize construction costs, legal fees, financing costs, real estate taxes and insurance and internal costs of personnel performing development, if such costs are incremental and identifiable to a specific development project. Capitalization of costs begins upon commencement of development efforts and ceases when the property is ready for its intended use and held available for occupancy. Interest is capitalized during the period of development based upon applying the weighted-average borrowing rate to the actual development costs expended. Capitalized interest costs were $1.2 million and $1.1 million for the three months ended September 30, 2014, and 2013, respectively, and $3.4 million and $3.0 million for the nine months ended September 30, 2014, and 2013, respectively.

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

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

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Depreciation expense was $16.8 million and $13.7 million for the three months ended September 30, 2014, and 2013, respectively, and $47.7 million and $38.9 million for the nine months ended September 30, 2014, and 2013, respectively.

Acquisition of Investment in Real Estate

Purchase accounting is applied to the assets and liabilities related to all real estate investments acquired. The fair value of the real estate acquired is allocated to the acquired tangible assets, consisting primarily of land, building and building improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases and the value of customer relationships.

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

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

The capitalized values for above and below-market lease intangibles, lease origination costs, and customer relationships are amortized over the term of the underlying leases or the expected customer relationship. Amortization related to above-market and below-market leases where the Company is the lessor is recorded as either a reduction of or an increase to rental income, amortization related to above-market and below-market leases where the Company is the lessee is recorded as either a reduction of or an increase to rent expense and amortization for lease origination costs and customer relationships are recorded as amortization expense. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off. The carrying value of intangible assets is reviewed for impairment in connection with its respective asset group whenever events or changes in circumstances indicate that the asset group may not be recoverable. An impairment loss is recognized if the carrying amount of the asset group is not recoverable and its carrying amount exceeds its estimated fair value. No impairment loss related to these intangible assets was recognized for the three and nine months ended September 30, 2014, and 2013.

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. As of September 30, 2014, and December 31, 2013, we had approximately $41.2 million of goodwill at each date. The Company s goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. No impairment loss was recognized for the three and nine months ended September 30, 2014, and 2013.

Cash and Cash Equivalents

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

Deferred Costs

Deferred leasing costs include commissions paid to third parties, including leasing agents, and internal sales commissions paid to employees for successful execution of lease agreements. These commissions and other direct and incremental costs incurred to obtain new customer leases are capitalized and amortized over the terms of the related leases using the straight-line method. If a lease terminates prior to the expiration of its initial term, any unamortized deferred costs related to the lease are written off to amortization expense. Deferred leasing costs are included within other assets in the condensed consolidated balance sheet and consisted of the following, net of amortization, as of September 30, 2014, and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Internal sales commissions	$ 10,518	$ 7,530
Third party commissions	12,969	6,328
External legal counsel	335	301
	$ 23,822	$ 14,159

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Deferred financing costs include costs incurred in connection with obtaining debt and extending existing debt. These financing costs are capitalized and amortized on a straight-line basis, which approximates the effective-interest method, over the term of the loan and are included as a component of interest expense.

Recoverability of Long-Lived Assets

We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is recognized when estimated expected future cash flows (undiscounted and without interest charges) are less than the carrying amount of the assets. The estimation of expected future net cash flows is inherently uncertain and relies, to a considerable extent, on assumptions regarding current and future economics and market conditions and the availability of capital. If, in future periods, there are changes in the estimates or assumptions incorporated into the impairment review analysis, the changes could result in an adjustment to the carrying amount of the long-lived assets. To the extent that impairment has occurred, the excess of the carrying amount of long-lived assets over its estimated fair value would be recognized as an impairment loss charged to net income. For the three and nine months ended September 30, 2014, and 2013, no real estate impairment was recognized.

Derivative Instruments and Hedging Activities

We reflect all derivative instruments at fair value as either assets or liabilities on the condensed consolidated balance sheets. For those derivative instruments that are designated and qualify as hedging instruments, we record the effective portion of the gain or loss on the hedge instruments as a component of accumulated other comprehensive income or loss. Any ineffective portion of a derivative s change in fair value is immediately recognized within net income. For derivatives that do not meet the criteria for hedge accounting, changes in fair value are immediately recognized within net income. See additional discussion in Note 6.

Internal-Use Software

We recognize internal-use software development costs based on the development stage of the project and nature of the cost. Internal and external costs incurred during the preliminary project stage are expensed as they are incurred. Internal and external costs incurred to develop internal-use software during the application development stage are capitalized. Internal and external training costs and maintenance costs during the post-implementation-operation stage are expensed as incurred. Completed projects are placed into service and amortized over the estimated useful life of the software.

During the three and nine months ended September 30, 2014, we recognized $0 and $2.0 million related to an impairment of internal use software, respectively, in the condensed consolidated statements of operations. The impairment is a result of internal-use software previously under development that was discontinued during the period and will not be placed into service. No impairment was recognized during the three and nine months ended September 30, 2013.

During the nine months ended September 30, 2014, we revised the remaining useful life of certain internal-use software from six years to one year. As of September 30, 2014, the remaining net book value of this internal-use software was $2.6 million and it will be fully amortized as of June 30, 2015.

Revenue Recognition

All customer leases are classified as operating leases and minimum rents are recognized on a straight-line basis over the non-cancellable term of the agreements. The excess of rents recognized over amounts contractually due pursuant to the underlying leases are included in deferred rent receivable. If a lease terminates prior to its stated expiration, the deferred rent receivable relating to that lease is written off as a reduction of rental revenue.

When arrangements include multiple elements, the revenue associated with separate elements is allocated based on the relative fair values of those elements. The revenue associated with each element is then recognized as earned. Interconnection services and additional space services are considered as separate earnings processes that are provided and completed on a month-to-month basis and revenue is recognized in the period that services are performed. Customer set-up charges and utility installation fees are initially deferred and recognized over the term of the arrangement as revenue.

Tenant reimbursements for real estate taxes, common area maintenance, and other recoverable costs are recognized as revenue in the period that the related expenses are incurred.

Above-market and below-market lease intangibles that were acquired are amortized on a straight-line basis as decreases and increases, respectively, to rental revenue over the remaining non-cancellable term of the underlying leases. For the three months ended September 30, 2014, and 2013, the net effect of amortization of acquired above-market and below-market leases resulted in an increase to rental revenue of $0.3 million and $0.2 million, respectively. For the nine months ended September 30, 2014, and 2013, the net effect of amortization of acquired above-market and below-market leases resulted in an increase to rental income of $0.4 million and $0.7 million, respectively.

A provision for uncollectible accounts is recorded if a receivable balance relating to contractual rent, rent recorded on a straight-line basis, or

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tenant reimbursements is considered by management to be uncollectible. At September 30, 2014, and December 31, 2013, the allowance for doubtful accounts totaled $0.4 million and $0.2 million, respectively.

In May 2014, the FASB issued guidance codified in Accounting Standards Codification (ASC) 606, Revenue Recognition *Revenue from Contracts with Customers*, which amends the guidance in former ASC 605, *Revenue Recognition*. The standard is effective for interim and annual reporting periods beginning after December 15, 2016. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the impact of the provisions of ASC 606 on our revenue recognition policies.

Share-Based Compensation

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

Asset Retirement and Environmental Remediation Obligations

We record accruals for estimated retirement and environmental remediation obligations. The obligations relate primarily to the removal of asbestos and contaminated soil during development of properties as well as the estimated equipment removal costs upon termination of a certain lease where we are the lessee. At September 30, 2014, and December 31, 2013, the amount included in prepaid rent and other liabilities on the condensed consolidated balance sheets was approximately $2.3 million and $2.2 million, respectively.

Income Taxes

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

To maintain REIT status, we must distribute a minimum of 90% of our taxable income. However, it is our policy and intent, subject to change, to distribute 100% of our taxable income and therefore no provision is required in the accompanying financial statements for federal income taxes with regards to activities of the REIT and its subsidiary pass-through entities. The allocable share of income is included in the income tax returns of its stockholders. The Company is subject to the statutory requirements of the locations in which it conducts business. State and local income taxes are accrued as deemed required in the best judgment of management based on analysis and interpretation of respective tax laws.

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

Deferred income taxes are recognized in certain taxable entities. Deferred income tax generally is a function of the period s temporary differences (items that are treated differently for tax purposes than for financial reporting purposes), the utilization of tax net operating losses generated in prior years that previously had been recognized as deferred income tax assets and the reversal of any previously recorded deferred income tax liabilities. A valuation allowance for deferred income tax assets is provided if we believe all or some portion of the deferred income tax asset may more likely than not be not realized. Any increase or decrease in the valuation allowance resulting from a change in circumstances that causes a change in the estimated realizability of the related deferred income tax asset is included in deferred tax expense. As of September 30, 2014, and December 31, 2013, the gross deferred income taxes were not material.

We currently have no liabilities for uncertain income tax positions. The earliest tax year for which we are subject to examination is 2010. Prior to their contribution to our Operating Partnership, our subsidiaries were treated as pass-through entities for tax purposes and 2010 also is the earliest year subject to examination with respect to our subsidiaries.

Concentration of Credit Risks

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

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Segment Information

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

3. Investment in Real Estate

The following is a summary of the properties owned or leased at September 30, 2014 (in thousands):

Property Name	Location	Land	Buildings and Improvements	Leasehold Improvements	Construction in Progress	Total Cost
SV1	San Jose, CA	$ 6,863	$ 124,759	$	$ 1,223	$ 132,845
SV2	Milpitas, CA	5,086	24,885		1,124	31,095
SV3	Santa Clara, CA	3,972	46,903		192	51,067
SV4	Santa Clara, CA	4,442	88,082		228	92,752
SV5	Santa Clara, CA	2,544	20,428			22,972
Santa Clara Campus(1)	Santa Clara, CA	8,173	8,221		13,661	30,055
BO1	Somerville, MA	6,100	79,136		2,500	87,736
NY1	New York, NY			33,216	313	33,529
NY2	Secaucus, NJ	1,158	43,638		65,657	110,453
VA1	Reston, VA	6,903	108,554		6,798	122,255
VA2	Reston, VA				74,931	74,931
DC1	Washington, DC			7,782	243	8,025
CH1	Chicago, IL	5,493	83,531		434	89,458
LA1	Los Angeles, CA			59,192	3,125	62,317
LA2	Los Angeles, CA	28,467	134,591		769	163,827
MI1	Miami, FL	728	10,063		86	10,877
DE1	Denver, CO			1,201	115	1,316
DE2	Denver, CO			876	77	953
Total		$ 79,929	$ 772,791	$ 102,267	$ 171,476	$ 1,126,463

(1) This campus includes office and light-industrial buildings and land held for development in Santa Clara, CA.

4. Other Assets

Our other assets consisted of the following, net of amortization and depreciation, if applicable, as of September 30, 2014, and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
Deferred leasing costs	$ 23,822	$ 14,159
Deferred rent receivable	19,993	17,265
Corporate furniture, fixtures and equipment	7,930	7,346
Internal-use software	8,604	8,525
Deferred financing costs	2,841	