

QTS Realty Trust, Inc.
Form 10-Q
August 06, 2018
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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 2018

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 001-36109

QTS Realty Trust, Inc.

QualityTech, LP

(Exact name of registrant as specified in its charter)

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Maryland (QTS Realty Trust, Inc.)	46-2809094
Delaware (QualityTech, LP)	27-0707288
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
12851 Foster Street, Overland Park, Kansas	66213
(Address of principal executive offices)	(Zip Code)

(Registrant's telephone number, including area code) (913) 312-5503

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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.

QTS Realty Trust, Inc.	Yes	No	QualityTech, LP	Yes	No
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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).

QTS Realty Trust, Inc.	Yes	No	QualityTech, LP	Yes	No
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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

QTS Realty Trust, Inc.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

QualityTech, LP

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

QTS Realty Trust, Inc. Yes

No

QualityTech, LP Yes

No

There were 51,018,919 shares of Class A common stock, \$0.01 par value per share, and 128,408 shares of Class B common stock, \$0.01 par value per share, of QTS Realty Trust, Inc. outstanding on August 1, 2018.

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EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q of QTS Realty Trust, Inc. (“QTS”) and QualityTech, LP, a Delaware limited partnership, which is our operating partnership (the “Operating Partnership”). This report also includes the financial statements of QTS and those of the Operating Partnership, although it presents only one set of combined notes for QTS’ financial statements and those of the Operating Partnership.

Substantially all of QTS’s assets are held by, and its operations are conducted through, the Operating Partnership. QTS is the sole general partner of the Operating Partnership, and, as of June 30, 2018, its only material asset consisted of its ownership of approximately 88.5% of the Operating Partnership. Management operates QTS and the Operating Partnership as one business. The management of QTS consists of the same employees as the management of the Operating Partnership. QTS does not conduct business itself, other than acting as the sole general partner of the Operating Partnership and issuing public equity from time to time. QTS has not issued or guaranteed any indebtedness. Except for net proceeds from public equity issuances by QTS, which are contributed to the Operating Partnership in exchange for units of limited partnership interest of the Operating Partnership, the Operating Partnership generates all remaining capital required by our business through its operations, the direct or indirect incurrence of indebtedness, and the issuance of partnership units. Therefore, as general partner with voting control of the Operating Partnership, QTS consolidates the Operating Partnership for financial reporting purposes.

We believe, therefore, that a combined presentation with respect to QTS and the Operating Partnership, including providing one set of notes for the financial statements of QTS and the Operating Partnership, provides the following benefits:

- enhances investors’ understanding of QTS and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure in this report applies to both QTS and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one presentation instead of two separate presentations.

In addition, in light of these combined disclosures, we believe it is important for investors to understand the few differences between QTS and the Operating Partnership in the context of how QTS and the Operating Partnership operate as a consolidated company. With respect to balance sheets, the presentation of stockholders’ equity and partners’ capital are the main areas of difference between the consolidated balance sheets of QTS and those of the Operating Partnership. On the Operating Partnership’s consolidated balance sheets, partners’ capital includes preferred partnership units and common partnership units as well as accumulated other comprehensive income (loss) that are owned by or attributable to QTS and other partners. On QTS’ consolidated balance sheets, stockholders’ equity includes preferred stock, common stock, additional paid-in capital, accumulated other comprehensive income (loss) and accumulated dividends in excess of earnings. The remaining equity reflected on QTS’ consolidated balance sheet is the

portion of net assets that are retained by partners other than QTS, referred to as noncontrolling interests. With respect to statements of operations, the primary difference in QTS' Statements of Operations and Statements of Comprehensive Income (Loss) is that for net income (loss), QTS retains its proportionate share of the net income (loss) based on its ownership of the Operating Partnership, with the remaining balance being retained by the Operating Partnership.

In order to highlight the few differences between QTS and the Operating Partnership, there are sections and disclosure in this report that discuss QTS and the Operating Partnership separately, including separate financial statements, separate audit reports, separate controls and procedures sections, separate Exhibit 31 and 32 certifications, and separate presentation of certain accompanying notes to the financial statements, including Note 8 – Partners' Capital, Equity and Incentive Compensation Plans. In the sections that combine disclosure for QTS and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of “we,” “our,” “us,” “our company” and “the Company.” Although the Operating Partnership is generally the entity that enters into contracts, holds assets and issues debt, we believe that these general references to “we,” “our,” “us,” “our company” and “the Company” in this context are appropriate because the business is one enterprise operated through the Operating Partnership.

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QTS Realty Trust, Inc.

QualityTech, LP

Form 10-Q

For the Quarterly Period Ended June 30, 2018

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

QTS REALTY TRUST, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEETS

(in thousands except per share data)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Real Estate Assets		
Land	\$ 105,541	\$ 88,216
Buildings, improvements and equipment	1,833,870	1,701,287
Less: Accumulated depreciation	(434,565)	(394,823)
	1,504,846	1,394,680
Construction in progress	649,766	567,819
Real Estate Assets, net	2,154,612	1,962,499
Cash and cash equivalents	52,468	8,243
Rents and other receivables, net	50,090	47,046
Acquired intangibles, net	100,202	109,451
Deferred costs, net	44,682	41,545
Prepaid expenses	10,088	6,163
Goodwill	173,843	173,843
Other assets, net	68,880	66,266
TOTAL ASSETS	\$ 2,654,865	\$ 2,415,056
LIABILITIES		
Unsecured credit facility, net	\$ 694,751	\$ 825,186
Senior notes, net of debt issuance costs	394,406	394,178
Capital lease, lease financing obligations and mortgage notes payable	6,217	10,565
Accounts payable and accrued liabilities	109,355	113,430
Dividends and distributions payable	25,648	22,222
Advance rents, security deposits and other liabilities	29,640	28,903
Deferred income taxes	2,068	4,611
Deferred income	32,870	25,305
TOTAL LIABILITIES	1,294,955	1,424,400

EQUITY

7.125% Series A cumulative redeemable perpetual preferred stock: \$0.01 par value (liquidation preference \$25.00 per share), 4,600,000 shares authorized, 4,280,000 shares issued and outstanding as of June 30, 2018; zero shares authorized, issued and outstanding as of December 31, 2017	103,212	—
6.50% Series B cumulative convertible perpetual preferred stock: \$0.01 par value (liquidation preference \$100.00 per share), 3,162,500 shares authorized, issued and outstanding as of June 30, 2018; zero shares authorized, issued and outstanding as of December 31, 2017	304,426	—
Common stock: \$0.01 par value, 450,133,000 shares authorized, 51,140,798 and 50,701,795 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	511	507
Additional paid-in capital	1,056,667	1,049,176
Accumulated other comprehensive income	8,840	1,283
Accumulated dividends in excess of earnings	(223,724)	(173,552)
Total stockholders' equity	1,249,932	877,414
Noncontrolling interests	109,978	113,242
TOTAL EQUITY	1,359,910	990,656
TOTAL LIABILITIES AND EQUITY	\$ 2,654,865	\$ 2,415,056

See accompanying notes to financial statements.

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QTS REALTY TRUST, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Rental	\$ 89,232	\$ 80,793	\$ 174,945	\$ 159,910
Recoveries from customers	10,444	8,774	21,957	17,135
Cloud and managed services	10,974	16,856	24,155	33,821
Other	1,627	1,445	4,917	2,966
Total revenues	112,277	107,868	225,974	213,832
Operating Expenses:				
Property operating costs	36,558	36,846	74,298	72,267
Real estate taxes and insurance	2,903	2,946	5,808	6,093
Depreciation and amortization	37,820	34,527	73,733	68,475
General and administrative	21,031	22,562	43,265	44,759
Transaction, integration and impairment costs	653	161	1,573	497
Restructuring	11,430	—	19,960	—
Total operating expenses	110,395	97,042	218,637	192,091
Operating income	1,882	10,826	7,337	21,741
Other income and expenses:				
Interest income	25	—	26	1
Interest expense	(8,203)	(7,647)	(16,313)	(14,516)
Income (loss) before taxes	(6,296)	3,179	(8,950)	7,226
Tax benefit (expense) of taxable REIT subsidiaries	(137)	1,429	2,265	2,950
Net income (loss)	(6,433)	4,608	(6,685)	10,176
Net (income) loss attributable to noncontrolling interests	1,002	(568)	1,031	(1,259)
Net income (loss) attributable to QTS Realty Trust, Inc.	\$ (5,431)	\$ 4,040	\$ (5,654)	\$ 8,917
Preferred stock dividends	(2,248)	—	(2,576)	—
Net income (loss) attributable to common stockholders	\$ (7,679)	\$ 4,040	\$ (8,230)	\$ 8,917
Net income (loss) per share attributable to common shares:				
Basic	\$ (0.16)	\$ 0.08	\$ (0.17)	\$ 0.18
Diluted	(0.16)	0.08	(0.17)	0.17

See accompanying notes to financial statements.

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QTS REALTY TRUST, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$ (6,433)	\$ 4,608	\$ (6,685)	\$ 10,176
Other comprehensive income (loss):				
Increase (decrease) in fair value of interest rate swaps	2,563	(1,499)	8,545	(1,499)
Reclassification of other comprehensive income to interest expense	91	—	493	—
Comprehensive income (loss)	(3,779)	3,109	2,353	8,677
Comprehensive (income) loss attributable to noncontrolling interests	431	(385)	(271)	(1,076)
Comprehensive income (loss) attributable to QTS Realty Trust, Inc.	\$ (3,348)	\$ 2,724	\$ 2,082	\$ 7,601

See accompanying notes to financial statements.

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QTS REALTY TRUST, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF EQUITY

(unaudited and in thousands)

	Preferred Shares	Stock Amount	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated other comprehensive income	Accumulated dividends in excess of earnings equity	Total stockholders' equity	Noncontrolling interests	Total
Balance at January 1, 2018	—	\$ —	50,702	\$ 507	\$ 1,049,176	\$ 1,283	\$ (173,552)	\$ 877,414	\$ 113,242	\$ 990,656
Issuance of common shares through equity award plan	—	—	439	4	(1,897)	—	—	(1,893)	1,031	(862)
Change in fair value of interest rate swaps	—	—	—	—	—	7,557	—	7,557	988	8,545
Company-based compensation expense	—	—	—	—	9,388	—	—	9,388	1,220	10,608
Proceeds from Series A preferred stock offering	4,280	103,212	—	—	—	—	—	103,212	—	103,212
Proceeds from Series B preferred stock offering	3,163	304,426	—	—	—	—	—	304,426	—	304,426
Dividends declared on the Series A preferred stock	—	—	—	—	—	—	(2,233)	(2,233)	—	(2,233)
Dividends declared on the Series B convertible preferred stock	—	—	—	—	—	—	(343)	(343)	—	(343)
	—	—	—	—	—	—	(41,942)	(41,942)	—	(41,942)

Dividends to Common Stockholders Contributions										
controlling interests	—	—	—	—	—	—	—	—	(5,472)	(5,472)
loss	—	—	—	—	—	—	(5,654)	(5,654)	(1,031)	(6,685)
Since June 2018	7,443	\$ 407,638	51,141	\$ 511	\$ 1,056,667	\$ 8,840	\$ (223,724)	\$ 1,249,932	\$ 109,978	\$ 1,359,9

See accompanying notes to financial statements.

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QTS REALTY TRUST, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOW

(unaudited and in thousands)

For the six months ended June 30, 2018 and 2017

	2018	2017
Cash flow from operating activities:		
Net income (loss)	\$ (6,685)	\$ 10,176
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	70,804	66,443
Amortization of above and below market leases	270	479
Amortization of deferred loan costs	1,923	1,815
Amortization of senior notes discount	—	136
Equity-based compensation expense	7,480	6,815
Bad debt expense	(1,230)	1,105
Deferred tax benefit	(2,443)	(2,979)
Loss on sale of equipment	2,846	—
Restructuring costs, net of cash paid	10,065	—
Changes in operating assets and liabilities		
Rents and other receivables, net	(1,914)	(3,599)
Prepaid expenses	(3,925)	(1,957)
Other assets	1,867	(595)
Accounts payable and accrued liabilities	3,535	(7,640)
Advance rents, security deposits and other liabilities	1,369	5,745
Deferred income	7,564	1,440
Net cash provided by operating activities	91,526	77,384
Cash flow from investing activities:		
Proceeds from sale of property	1,496	—
Acquisitions, net of cash acquired	(24,626)	(5,019)
Additions to property and equipment	(248,852)	(139,818)
Net cash used in investing activities	(271,982)	(144,837)
Cash flow from financing activities:		
Credit facility proceeds	231,000	109,000
Credit facility repayments	(362,000)	—
Debt proceeds	—	1,920
Payment of deferred financing costs	(606)	(38)
Payment of preferred stock dividends	(635)	—
Payment of common stock dividends	(40,641)	(35,958)

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Distribution to noncontrolling interests	(5,289)	(5,087)
Proceeds from exercise of stock options	18	662
Payment of tax withholdings related to equity-based awards	(1,233)	(2,464)
Principal payments on capital lease obligations	(4,316)	(6,547)
Mortgage principal debt repayments	(32)	(22)
Preferred stock issuance proceeds, net of costs	408,415	—
Common stock issuance proceeds, net of costs	—	39,011
Net cash provided by financing activities	224,681	100,477
Net increase in cash and cash equivalents	44,225	33,024
Cash and cash equivalents, beginning of period	8,243	9,580
Cash and cash equivalents, end of period	\$ 52,468	\$ 42,604

See accompanying notes to financial statements.

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QTS REALTY TRUST, INC.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOW (continued)

(unaudited and in thousands)

For the six months ended June 30, 2018 and 2017

	2018	2017
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest (excluding deferred financing costs and amounts capitalized)	\$ 14,265	\$ 11,517
Noncash investing and financing activities:		
Accrued capital additions	\$ 67,708	\$ 46,894
Increase in other assets related to change in fair value of interest rate swaps	\$ 8,545	\$ 1,499
Accrued equity issuance costs	\$ 777	\$ —
Accrued preferred stock dividend	\$ 2,576	\$ —
Accrued deferred financing costs	\$ 14	\$ —

See accompanying notes to financial statements.

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QUALITYTECH, LP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

BALANCE SHEETS

(in thousands)

	June 30, 2018 (unaudited)	December 31, 2017
ASSETS		
Real Estate Assets		
Land	\$ 105,541	\$ 88,216
Buildings, improvements and equipment	1,833,870	1,701,287
Less: Accumulated depreciation	(434,565)	(394,823)
	1,504,846	1,394,680
Construction in progress	649,766	567,819
Real Estate Assets, net	2,154,612	1,962,499
Cash and cash equivalents	52,468	8,243
Rents and other receivables, net	50,090	47,046
Acquired intangibles, net	100,202	109,451
Deferred costs, net	44,682	41,545
Prepaid expenses	10,088	6,163
Goodwill	173,843	173,843
Other assets, net	68,880	66,266
TOTAL ASSETS	\$ 2,654,865	\$ 2,415,056
LIABILITIES		
Unsecured credit facility, net	\$ 694,751	\$ 825,186
Senior notes, net of debt issuance costs	394,406	394,178
Capital lease, lease financing obligations and mortgage notes payable	6,217	10,565
Accounts payable and accrued liabilities	109,355	113,430
Dividends and distributions payable	25,648	22,222
Advance rents, security deposits and other liabilities	29,640	28,903
Deferred income taxes	2,068	4,611
Deferred income	32,870	25,305
TOTAL LIABILITIES	1,294,955	1,424,400
PARTNERS' CAPITAL		
7.125% Series A cumulative redeemable perpetual preferred units: \$0.01 par value (liquidation preference \$25.00 per unit), 4,600,000 units authorized, 4,280,000 units issued and outstanding as of June 30, 2018; zero units authorized, issued and outstanding as of December 31, 2017	103,212	—
6.50% Series B cumulative convertible perpetual preferred units: \$0.01 par value (liquidation preference \$100.00 per unit), 3,162,500 units authorized, issued and	304,426	—

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outstanding as of June 30, 2018; zero units authorized, issued and outstanding as of December 31, 2017

Common units: \$0.01 par value, 450,133,000 units authorized, 57,818,242 and 57,245,524 units issued and outstanding as of June 30, 2018 and December 31, 2017, respectively

Accumulated other comprehensive income

TOTAL PARTNERS' CAPITAL

TOTAL LIABILITIES AND PARTNERS' CAPITAL

942,278	989,207
9,994	1,449
1,359,910	990,656
\$ 2,654,865	\$ 2,415,056

See accompanying notes to financial statements.

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QUALITYTECH, LP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF OPERATIONS

(unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Rental	\$ 89,232	\$ 80,793	\$ 174,945	\$ 159,910
Recoveries from customers	10,444	8,774	21,957	17,135
Cloud and managed services	10,974	16,856	24,155	33,821
Other	1,627	1,445	4,917	2,966
Total revenues	112,277	107,868	225,974	213,832
Operating Expenses:				
Property operating costs	36,558	36,846	74,298	72,267
Real estate taxes and insurance	2,903	2,946	5,808	6,093
Depreciation and amortization	37,820	34,527	73,733	68,475
General and administrative	21,031	22,562	43,265	44,759
Transaction, integration and impairment costs	653	161	1,573	497
Restructuring	11,430	—	19,960	—
Total operating expenses	110,395	97,042	218,637	192,091
Operating income	1,882	10,826	7,337	21,741
Other income and expenses:				
Interest income	25	—	26	1
Interest expense	(8,203)	(7,647)	(16,313)	(14,516)
Income (loss) before taxes	(6,296)	3,179	(8,950)	7,226
Tax benefit (expense) of taxable REIT subsidiaries	(137)	1,429	2,265	2,950
Net income (loss)	\$ (6,433)	\$ 4,608	\$ (6,685)	\$ 10,176
Preferred unit distributions	(2,248)	—	(2,576)	—
Net income (loss) attributable to common unitholders	\$ (8,681)	\$ 4,608	\$ (9,261)	\$ 10,176

See accompanying notes to financial statements.

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QUALITYTECH, LP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited and in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	\$ (6,433)	\$ 4,608	\$ (6,685)	\$ 10,176
Other comprehensive income (loss):				
Increase (decrease) in fair value of interest rate swaps	2,563	(1,499)	8,545	(1,499)
Reclassification of other comprehensive income to interest expense	91	—	493	—
Comprehensive income (loss)	\$ (3,779)	\$ 3,109	\$ 2,353	\$ 8,677

See accompanying notes to financial statements.

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QUALITYTECH, LP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PARTNERS' CAPITAL

(unaudited and in thousands)

	Limited Partners' Capital				General Partner's Capital		Accumulated other comprehensive income	
	Preferred Units	Amount	Common Units	Amount	Common Units	Amount	Amount	Total
Balance January 1, 2018	—	\$ —	57,246	\$ 989,207	1	\$ —	\$ 1,449	\$ 990,656
Net share activity through equity award plan	—	—	572	(862)	—	—	—	(862)
Increase in fair value of interest rate swaps	—	—	—	—	—	—	8,545	8,545
Equity-based compensation expense	—	—	—	10,608	—	—	—	10,608
Net proceeds from QTS Realty Trust, Inc. Series A Preferred equity offering	4,280	103,212	—	—	—	—	—	103,212
Net proceeds from QTS Realty Trust, Inc. Series B Preferred equity offering	3,163	304,426	—	—	—	—	—	304,426
Dividends declared on Series A Preferred Units	—	—	—	(2,233)	—	—	—	(2,233)
Dividends declared on Series B Convertible Preferred Units	—	—	—	(343)	—	—	—	(343)
Common dividends to QTS Realty Trust, Inc.	—	—	—	(41,942)	—	—	—	(41,942)
Partnership distributions	—	—	—	(5,472)	—	—	—	(5,472)

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Net loss	—	—	—	(6,685)	—	—	—	(6,685)
Balance June 30, 2018	7,443	\$ 407,638	57,818	\$ 942,278	1	\$ —	\$ 9,994	\$ 1,359,910

See accompanying notes to financial statements.

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QUALITYTECH, LP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOW

(unaudited and in thousands)

For the six months ended June 30, 2018 and 2017

	2018	2017
Cash flow from operating activities:		
Net income (loss)	\$ (6,685)	\$ 10,176
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	70,804	66,443
Amortization of above and below market leases	270	479
Amortization of deferred loan costs	1,923	1,815
Amortization of senior notes discount	—	136
Equity-based compensation expense	7,480	6,815
Bad debt expense (recoveries)	(1,230)	1,105
Deferred tax benefit	(2,443)	(2,979)
Loss on sale of equipment	2,846	—
Restructuring costs, net of cash paid	10,065	—
Changes in operating assets and liabilities		
Rents and other receivables, net	(1,914)	(3,599)
Prepaid expenses	(3,925)	(1,957)
Other assets	1,867	(595)
Accounts payable and accrued liabilities	3,535	(7,640)
Advance rents, security deposits and other liabilities	1,369	5,745
Deferred income	7,564	1,440
Net cash provided by operating activities	91,526	77,384
Cash flow from investing activities:		
Proceeds from sale of property	1,496	—
Acquisitions, net of cash acquired	(24,626)	(5,019)
Additions to property and equipment	(248,852)	(139,818)
Net cash used in investing activities	(271,982)	(144,837)
Cash flow from financing activities:		
Credit facility proceeds	231,000	109,000
Credit facility repayments	(362,000)	—
Debt proceeds	—	1,920
Payment of deferred financing costs	(606)	(38)
Payment of preferred stock dividends	(635)	—
Payment of cash dividends	(40,641)	(35,958)

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Partnership distributions	(5,289)	(5,087)
Proceeds from exercise of stock options	18	662
Payment of tax withholdings related to equity-based awards	(1,233)	(2,464)
Principal payments on capital lease obligations	(4,316)	(6,547)
Mortgage principal debt repayments	(32)	(22)
Preferred stock issuance proceeds, net of costs	408,415	—
Common stock issuance proceeds, net of costs	—	39,011
Net cash provided by financing activities	224,681	100,477
Net increase in cash and cash equivalents	44,225	33,024
Cash and cash equivalents, beginning of period	8,243	9,580
Cash and cash equivalents, end of period	\$ 52,468	\$ 42,604

See accompanying notes to financial statements.

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QUALITYTECH, LP

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

STATEMENTS OF CASH FLOW (continued)

(unaudited and in thousands)

For the six months ended June 30, 2018 and 2017

	2018	2017
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid for interest (excluding deferred financing costs and amounts capitalized)	\$ 14,265	\$ 11,517
Noncash investing and financing activities:		
Accrued capital additions	\$ 67,708	\$ 46,894
Increase in other assets related to change in fair value of interest rate swaps	\$ 8,545	\$ 1,499
Accrued equity issuance costs	\$ 777	\$ —
Accrued preferred stock dividend	\$ 2,576	\$ —
Accrued deferred financing costs	\$ 14	\$ —

See accompanying notes to financial statements.

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QTS REALTY TRUST, INC.

QUALITYTECH, LP

NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. Description of Business

QTS Realty Trust, Inc., a Maryland corporation, (“QTS”) through its controlling interest in QualityTech, LP (the “Operating Partnership” and collectively with QTS and their subsidiaries, the “Company”) and the subsidiaries of the Operating Partnership, is engaged in the business of owning, acquiring, constructing, redeveloping and managing multi-tenant data centers. The Company’s portfolio consists of 26 wholly-owned and leased properties with data centers located throughout the United States, Canada, Europe and Asia.

QTS elected to be taxed as a real estate investment trust (“REIT”), for U.S. federal income tax purposes, commencing with its taxable year ended December 31, 2013. As a REIT, QTS generally is not required to pay federal corporate income taxes on its taxable income to the extent it is currently distributed to its stockholders.

The Operating Partnership is a Delaware limited partnership formed on August 5, 2009 and is QTS’ historical predecessor. As of June 30, 2018, QTS owned approximately 88.5% of the interests in the Operating Partnership. Substantially all of QTS’ assets are held by, and QTS’ operations are conducted through, the Operating Partnership. QTS’ interest in the Operating Partnership entitles QTS to share in cash distributions from, and in the profits and losses of, the Operating Partnership in proportion to QTS’ percentage ownership. As the sole general partner of the Operating Partnership, QTS generally has the exclusive power under the partnership agreement of the Operating Partnership to manage and conduct the Operating Partnership’s business and affairs, subject to certain limited approval and voting rights of the limited partners. QTS’ board of directors manages the Company’s business and affairs.

2. Summary of Significant Accounting Policies

Basis of Presentation – The accompanying financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and in compliance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”). These unaudited consolidated financial statements and related notes should be read in conjunction with the audited consolidated financial statements and related notes and management’s discussion and analysis included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 28, 2018. The consolidated balance sheet data included herein as of December 31, 2017 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP. In the opinion of management, all

adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included.

The accompanying financial statements are presented for both QTS Realty Trust, Inc. and QualityTech, LP. References to “QTS” mean QTS Realty Trust, Inc. and its controlled subsidiaries and references to the “Operating Partnership” mean QualityTech, LP and its controlled subsidiaries.

The Operating Partnership meets the definition and criteria of a variable interest entity (“VIE”) in accordance with ASC 810, Consolidation, and the Company is the primary beneficiary of the VIE. As discussed below, the Company’s only material asset is its ownership interest in the Operating Partnership, and consequently, all of its assets and liabilities represent those assets and liabilities of the Operating Partnership. The Company’s debt is an obligation of the Operating Partnership where the creditors may have recourse, under certain circumstances, against the credit of the Company.

QTS is the sole general partner of the Operating Partnership, and its only material asset consists of its ownership interest in the Operating Partnership. Management operates QTS and the Operating Partnership as one business. The management of QTS consists of the same employees as the management of the Operating Partnership. QTS does not conduct business itself, other than acting as the sole general partner of the Operating Partnership and issuing public equity from time to time. QTS has not issued or guaranteed any indebtedness. Except for net proceeds from public equity issuances by QTS, which are contributed to the Operating Partnership in exchange for units of limited partnership interest of the Operating Partnership, the Operating Partnership generates all remaining capital required by the business through its operations, the direct or indirect incurrence of indebtedness, and the issuance of partnership units. Therefore,

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as general partner with control of the Operating Partnership, QTS consolidates the Operating Partnership for financial reporting purposes.

The Company believes, therefore, that providing one set of notes for the financial statements of QTS and the Operating Partnership provides the following benefits:

- enhances investors' understanding of QTS and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both QTS and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one set of notes instead of two separate sets of notes.

In addition, in light of these combined notes, the Company believes it is important for investors to understand the few differences between QTS and the Operating Partnership in the context of how QTS and the Operating Partnership operate as a consolidated company. With respect to balance sheets, the presentation of stockholders' equity and partners' capital are the main areas of difference between the consolidated balance sheets of QTS and those of the Operating Partnership. On the Operating Partnership's consolidated balance sheets, partners' capital includes preferred partnership units and common partnership units that are owned by QTS and other partners as well as accumulated other comprehensive income (loss). On QTS' consolidated balance sheets, stockholders' equity includes preferred stock, common stock, additional paid in capital, accumulated other comprehensive income (loss) and accumulated dividends in excess of earnings. The remaining equity reflected on QTS's consolidated balance sheet is the portion of net assets that are retained by partners other than QTS, referred to as noncontrolling interests. With respect to statements of operations, the primary difference in QTS' Statements of Operations and Statements of Comprehensive Income (Loss) is that for net income (loss), QTS retains its proportionate share of the net income (loss) based on its ownership of the Operating Partnership, with the remaining balance being retained by the Operating Partnership. These combined notes refer to actions or holdings as being actions or holdings of "the Company." Although the Operating Partnership is generally the entity that enters into contracts, holds assets and issues debt, management believes that these general references to "the Company" in this context is appropriate because the business is one enterprise operated through the Operating Partnership.

As discussed above, QTS owns no operating assets and has no operations independent of the Operating Partnership and its subsidiaries. Also, the Operating Partnership owns no operating assets and has no operations independent of its subsidiaries. Obligations under the 4.75% Senior Notes due 2025 and the unsecured credit facility, both discussed in Note 5, are fully, unconditionally, and jointly and severally guaranteed by the Operating Partnership's existing subsidiaries (other than foreign subsidiaries and receivables entities) and future subsidiaries that guarantee any indebtedness of QTS Realty Trust, Inc., the Issuers or any other subsidiary guarantor, other than QTS Finance Corporation, the co-issuer of the 4.75% Senior Notes due 2025. The indenture governing the 4.75% Senior Notes due 2025 restricts the ability of the Operating Partnership to make distributions to QTS, subject to certain exceptions, including distributions required in order for QTS to maintain its status as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code").

The interim consolidated financial statements of QTS Realty Trust, Inc. include the accounts of QTS Realty Trust, Inc. and its majority owned subsidiaries. This includes the operating results of the Operating Partnership for all periods presented.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowances for doubtful accounts and deferred tax assets and the valuation of derivatives, real estate assets, acquired intangible assets and certain accruals.

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Principles of Consolidation – The consolidated financial statements of QTS Realty Trust, Inc. include the accounts of QTS Realty Trust, Inc. and its majority-owned subsidiaries. The consolidated financial statements of QualityTech, LP include the accounts of QualityTech, LP and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in the financial statements.

Real Estate Assets – Real estate assets are reported at cost. All capital improvements for the income-producing properties that extend their useful lives are capitalized to individual property improvements and depreciated over their estimated useful lives. Depreciation for real estate assets is generally provided on a straight-line basis over 40 years from the date the property was placed in service. Property improvements are depreciated on a straight-line basis over the life of the respective improvement ranging from 20 to 40 years from the date the components were placed in service. Leasehold improvements are depreciated over the lesser of 20 years or through the end of the respective life of the lease. Repairs and maintenance costs are expensed as incurred. For the three months ended June 30, 2018, depreciation expense related to real estate assets and non-real estate assets was \$25.0 million and \$3.1 million, respectively, for a total of \$28.1 million. For the three months ended June 30, 2017, depreciation expense related to real estate assets and non-real estate assets was \$22.0 million and \$3.5 million, respectively, for a total of \$25.5 million. For the six months ended June 30, 2018, depreciation expense related to real estate assets and non-real estate assets was \$48.6 million and \$6.4 million, respectively, for a total of \$55.0 million. For the six months ended June 30, 2017, depreciation expense related to real estate assets and non-real estate assets was \$43.4 million and \$7.1 million, respectively, for a total of \$50.5 million. The Company capitalizes certain development costs, including internal costs incurred in connection with development. The capitalization of costs during the construction period (including interest and related loan fees, property taxes and other direct and indirect costs) begins when development efforts commence and ends when the asset is ready for its intended use. Capitalization of such costs, excluding interest, aggregated to \$3.7 million and \$3.4 million for the three months ended June 30, 2018 and 2017, respectively, and \$7.2 million and \$5.9 million for the six months ended June 30, 2018 and 2017, respectively. Interest is capitalized during the period of development by first applying the Company's actual borrowing rate on the related asset and second, to the extent necessary, by applying the Company's weighted average effective borrowing rate to the actual development and other costs expended during the construction period. Interest is capitalized until the property is ready for its intended use. Interest costs capitalized totaled \$6.0 million and \$3.2 million for the three months ended June 30, 2018 and 2017, respectively, and \$11.4 million and \$6.3 million for the six months ended June 30, 2018 and 2017, respectively.

Acquisitions and Sales – Acquisitions of real estate and other entities are either accounted for as asset acquisitions or business combinations depending on facts and circumstances. Purchase accounting is applied to the assets and liabilities related to all real estate investments acquired in accordance with the accounting requirements of ASC 805, Business Combinations, which requires the recording of net assets of acquired businesses at fair value. The fair value of the consideration transferred is assigned to the acquired tangible assets, consisting primarily of land, construction in progress, building and improvements, and identified intangible assets and liabilities, consisting of the value of above-market and below-market leases, value of in-place leases, value of customer relationships, trade names, software intangibles and capital leases. The excess of the fair value of liabilities assumed, common stock issued and cash paid over the fair value of identifiable assets acquired is allocated to goodwill, which is not amortized by the Company.

In developing estimates of fair value of acquired assets and assumed liabilities, management analyzed a variety of factors including market data, estimated future cash flows of the acquired operations, industry growth rates, current

replacement cost for fixed assets and market rate assumptions for contractual obligations. Such a valuation requires management to make significant estimates and assumptions, particularly with respect to the intangible assets.

Acquired in-place leases are amortized as amortization expense on a straight-line basis over the remaining life of the underlying leases. This amortization expense is accounted for as real estate amortization expense.

Acquired customer relationships are amortized as amortization expense on a straight-line basis over the expected life of the customer relationship. This amortization expense is accounted for as real estate amortization expense.

Other acquired intangible assets, which includes platform, above or below market leases, and trade name intangibles, are amortized on a straight-line basis over their respective expected lives. Above or below market leases are amortized as a reduction to or increase in rental revenue when the Company is a lessor as well as a reduction or increase to rent expense

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over the remaining lease terms in the case of the Company as lessee. The expense associated with trade name intangibles is accounted for as real estate expense, whereas the expense associated with the amortization of platform intangibles is accounted for as non-real estate expense.

In March 2018, the Company completed the acquisition of approximately 61 acres of land in Manassas, Virginia for approximately \$24.6 million to be used for future development. The acquisition was accounted for as an asset acquisition. The land acquired in the Manassas purchase is included within the “Construction in Progress” line item of the consolidated balance sheets.

The Company accounts for the sale of assets under Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20), which provides for recognition or derecognition based on transfer of ownership. During the three months ended June 30, 2018, the Company recognized a \$2.8 million loss on sale of equipment associated with the Company’s strategic growth plan. The loss is included within the “Restructuring” line item of the consolidated statements of operations. No gains or losses were recorded on the sale of assets for the three and six months ended June 30, 2017.

Impairment of Long-Lived Assets, Intangible Assets and Goodwill – The Company reviews its long-lived assets and intangible assets for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Recoverability of assets to be held and used is measured by comparison of the carrying amount to the future net cash flows, undiscounted and without interest, expected to be generated by the asset group. If the net carrying value of the asset exceeds the value of the undiscounted cash flows, the fair value of the asset is assessed and may be considered impaired. An impairment loss is recognized based on the excess of the carrying amount of the impaired asset over its fair value. The Company recognized \$0.2 million and \$4.3 million of impairment losses related to certain product-related assets in the three and six months ended June 30, 2018. No impairment losses were recorded for the three and six months ended June 30, 2017.

The fair value of goodwill is the consideration transferred in a business combination which is not allocable to identifiable intangible and tangible assets. Goodwill is subject to at least an annual assessment for impairment. In connection with the goodwill impairment evaluation that the Company performed on October 1, 2017, the Company determined qualitatively that it is not more likely than not that the fair value of the Company’s one reporting unit was less than the carrying amount, thus it did not perform a quantitative analysis. As the Company continues to operate and assess its goodwill at the corporate level and its market capitalization exceeds its net asset value, further analysis was not deemed necessary as of June 30, 2018.

Cash and Cash Equivalents – The Company considers all demand deposits and money market accounts purchased with a maturity date of three months or less at the date of purchase to be cash equivalents. The Company’s account balances at one or more institutions periodically exceed the Federal Deposit Insurance Corporation (“FDIC”) insurance coverage and, as a result, there is concentration of credit risk related to amounts on deposit in excess of FDIC coverage. The

Company mitigates this risk by depositing a majority of its funds with several major financial institutions. The Company also has not experienced any losses and, therefore, does not believe that the risk is significant.

Deferred Costs – Deferred costs, net, on the Company’s balance sheets include both financing costs and leasing costs.

Deferred financing costs represent fees and other costs incurred in connection with obtaining debt and are amortized over the term of the loan and are included in interest expense. Debt issuance costs related to revolving debt arrangements are deferred and presented as assets on the balance sheet; however, all other debt issuance costs are recorded as a direct offset to the associated liability. Amortization of debt issuance costs, including those costs presented as offsets to the associated liability in the consolidated balance sheet, was \$1.0 million and \$0.9 million for the three months ended June 30, 2018 and 2017, respectively, and \$1.9 million and \$1.8 million for the six months ended June 30, 2018 and 2017,

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respectively. Deferred financing costs presented as assets on the balance sheets related to revolving debt arrangements, net of accumulated amortization, are as follows:

(dollars in thousands)	June 30, 2018 (unaudited)	December 31, 2017
Deferred financing costs	\$ 9,757	\$ 9,775
Accumulated amortization	(2,887)	(1,908)
Deferred financing costs, net	\$ 6,870	\$ 7,867

Deferred financing costs presented as offsets to the associated liabilities on the balance sheet related to fixed debt arrangements, net of accumulated amortization, are as follows:

(dollars in thousands)	June 30, 2018 (unaudited)	December 31, 2017
Deferred financing costs	\$ 12,826	\$ 12,675
Accumulated amortization	(1,983)	(1,039)
Deferred financing costs, net	\$ 10,843	\$ 11,636

Initial direct costs, or deferred leasing costs, include commissions paid to third parties, including brokers, leasing and referral agents, and internal sales commissions paid to employees for successful execution of lease agreements. These costs are incurred when the Company executes lease agreements and represent only incremental costs that would not have been incurred if the lease agreement had not been executed. The Company incurs the same incremental costs to obtain managed services and cloud contracts with customers that are accounted for pursuant to ASC 606, Revenue from Contracts with Customers. These costs are accounted for under ASC 340-40, Other Assets and Deferred Costs, which includes the same framework for capitalization that is applied to the Company's leasing contracts as only the direct and incremental costs of obtaining a revenue contract are capitalized. Because the framework of accounting for these costs and the underlying nature of the costs are the same for the Company's revenue and lease contracts, the costs are presented on a combined basis within the Company's financial statements and within the below table. Both revenue and leasing commissions are capitalized and generally amortized over the term of the related leases or the expected term of the contract using the straight-line method. If a customer lease terminates prior to the expiration of its initial term, any unamortized initial direct costs related to the lease are written off to amortization expense. Amortization of deferred leasing costs totaled \$5.3 million and \$4.5 million for the three months ended June 30, 2018 and 2017, respectively, and \$10.2 million and \$8.7 million for the six months ended June 30, 2018 and 2017, respectively. Deferred leasing costs, net of accumulated amortization, are as follows:

(dollars in thousands)	June 30, 2018 (unaudited)	December 31, 2017
Deferred leasing costs	\$ 60,624	\$ 54,868
Accumulated amortization	(22,812)	(20,956)
Deferred leasing costs, net	\$ 37,812	\$ 33,912

Revenue Recognition – In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance codified in Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers, which supersedes the current revenue recognition requirements in ASC Topic 605, Revenue Recognition. Under this new guidance, entities should recognize revenues to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. This standard also requires enhanced disclosures. The standard is effective for annual and interim periods beginning after December 15, 2017. Retrospective and modified retrospective application is allowed. The Company adopted ASC Topic 606 effective January 1, 2018, and elected the modified retrospective transition approach. The adoption did not result in a cumulative catch-up adjustment

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to opening equity and does not change the recognition pattern of the Company's operating revenues. Under the standard, disclosures are required to provide information on the nature, amount, timing, and uncertainty of revenue, certain costs, and cash flows arising from contracts with customers.

The Company derives its revenues from leases with customers for data center space which include lease rental revenue components and nonlease revenue components, such as power, connectivity, cloud and managed services. A description of each of the Company's disaggregated revenue streams is as follows:

Rental Revenue

The Company's leases with customers are classified as operating leases and rental revenue is recognized on a straight-line basis over the customer lease term. Occasionally, customer leases include options to extend or terminate the lease agreements. The Company does not include any of these extension or termination options in a customer's lease term for lease classification purposes or recognizing rental revenue unless it is reasonably certain the customer will exercise these extension or termination options.

Rental revenue also includes revenue from power delivery on fixed power arrangements, whereby customers are billed and pay a fixed monthly fee per committed available amount of connected power. These fixed power arrangements require the Company to provide a series of distinct services of standing ready to deliver the power over the contracted term which is co-terminus with the lease. The Company recognizes revenue from these nonlease fixed power components over time on a straight-line basis in the same manner as the lease components of the contract as the customer simultaneously receives and consumes the power benefits provided over the lease term.

Rental revenue also includes amortization of set-up fees which are amortized over the term of the respective lease as discussed below.

Recoveries from Customers

Certain customer leases contain provisions under which customers reimburse the Company for power and cooling-related charges as well as a portion of the property's real estate taxes, insurance and other operating expenses. Recoveries of power and cooling-related expenses are nonlease components and relate specifically to the Company's variable power arrangements, whereby customers pay variable monthly fees for the specific amount of power utilized at the current utility rates. The Company's performance obligation is to stand ready to deliver power over the life of the customer contract up to a contracted power capacity. Customers have the flexibility to increase or decrease the amount of power consumed, and therefore sub-metered power revenue is constrained at contract inception. The reimbursements are included in revenue as recoveries from customers and are recognized each month as the uncertainty related to the consideration is resolved (i.e. the Company provides power to its customers) and customers utilize the power. Reimbursement of real estate taxes, insurance, common area maintenance, or other operating expenses are accounted for as executory costs under lease guidance and are recognized as revenue in the period that

the associated expenses are recognized.

Cloud and Managed Services

The Company may provide both its cloud product and use of its managed services to its customers on an individual or combined basis. In both its cloud and managed services offerings the Company's performance obligation is to provide services (e.g. cloud hosting, data backup, data storage or data center personnel labor hours) to facilitate a fully integrated IT outsourcing environment over a contracted term. Although underlying services may vary, over the contracted term monthly service offerings are substantially the same and the Company accounts for the services as a series of distinct services. Service fee revenue is recognized as the revenue is earned, which generally coincides with the services being provided. As the Company has the right to consideration from customers in an amount that corresponds directly with the value to the customer of the Company's performance of providing continuous services, the Company recognizes monthly revenue for the amount invoiced.

With respect to the transaction price allocated to remaining performance obligations within the Company's cloud and managed service contracts, the Company has elected to use the optional exemption provided by the standard whereby the Company is not required to estimate the total transaction price allocated to remaining performance obligations as the Company applies the "right-to-invoice" practical expedient. As described above, the nature of our performance

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obligation in these contracts is to provide monthly services that are substantially the same and accounted for as a series of distinct services. These contracts generally have a remaining term ranging from month-to-month to three years.

Other

Other revenue primarily consists of straight line rent. Straight line rent represents the difference in rents recognized versus amounts contractually due pursuant to the underlying leases and is recorded as deferred rent receivable/payable in the consolidated balance sheets. For lease agreements that provide for scheduled rent increases, rental income is recognized on a straight-line basis over the non-cancellable term of the leases, which commences when control of the space has been provided to the customer. The amount of the straight-line rent receivable on the balance sheets included in rents and other receivables, net was \$26.5 million and \$23.4 million as of June 30, 2018 and December 31, 2017, respectively.

Advance Rents and Security Deposits – Advance rents, typically prepayment of the following month’s rent, consist of payments received from customers prior to the time they are earned and are recognized as revenue in subsequent periods when earned. Security deposits are collected from customers at the lease origination and are generally refunded to customers upon lease expiration.

Deferred Income – Deferred income generally results from non-refundable charges paid by the customer at lease inception to prepare their space for occupancy. The Company records this initial payment, commonly referred to as set-up fees, as a deferred income liability which amortizes into rental revenue over the term of the related lease on a straight-line basis. Deferred income was \$32.9 million and \$25.3 million as of June 30, 2018 and December 31, 2017, respectively. Additionally, \$3.2 million and \$2.4 million of deferred income was amortized into revenue for the three months ended June 30, 2018 and 2017, respectively, and \$6.1 million and \$5.1 million for the six months ended June 30, 2018 and 2017, respectively.

Equity-based Compensation – Equity-based compensation costs are measured based upon their estimated fair value on the date of grant or modification and amortized ratably over their respective vesting periods. We have elected to account for forfeitures as they occur. Equity-based compensation expense net of forfeited and repurchased awards was \$4.0 million and \$3.7 million for the three months ended June 30, 2018 and 2017, respectively, and \$7.5 million and \$6.8 million for the six months ended June 30, 2018 and 2017, respectively. Equity-based compensation expense for the three and six months ended June 30, 2018 excludes \$1.7 million and \$3.1 million, respectively, of equity-based compensation expense associated with the acceleration of equity awards related to certain employees impacted by the Company’s strategic growth plan. The aforementioned equity-based compensation expense is included in the “Restructuring” expense line item on the consolidated statements of operations.

Allowance for Uncollectible Accounts Receivable – Rents receivable are recognized when due and are carried at cost, less an allowance for doubtful accounts. The Company records a provision for losses on rents receivable equal to the

estimated uncollectible accounts, which is based on management's historical experience and a review of the current status of the Company's receivables. As necessary, the Company also establishes an appropriate allowance for doubtful accounts for receivables arising from the straight-lining of rents. The aggregate allowance for doubtful accounts was \$4.4 million and \$11.5 million as of June 30, 2018 and December 31, 2017, respectively.

Capital Leases and Lease Financing Obligations – The Company evaluates leased real estate to determine whether the lease should be classified as a capital or operating lease in accordance with U.S. GAAP.

The Company periodically enters into capital leases for certain equipment. In addition, through its acquisition of Carpathia on June 16, 2015, the Company is party to capital leases for property and equipment, as well as certain financing obligations. The outstanding liabilities for the capital leases were \$3.9 million and \$7.8 million as of June 30, 2018 and December 31, 2017, respectively. The outstanding liabilities for the lease financing obligations were \$0.5 million and \$0.9 million as of June 30, 2018 and December 31, 2017, respectively. The net book value of the assets associated with these leases was approximately \$10.9 million and \$14.7 million as of June 30, 2018 and December 31, 2017, respectively. Depreciation related to the associated assets is included in depreciation and amortization expense in the Statements of Operations.

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See Note 5 for further discussion of capital leases and lease financing obligations.

Segment Information – The Company manages its business as one operating segment and thus one reportable segment consisting of a portfolio of investments in data centers located primarily in the United States.

Customer Concentrations – As of June 30, 2018, one of the Company's customers represented 12.1% of its total monthly rental revenue. No other customers exceeded 5% of total monthly rental revenue.

As of June 30, 2018, four of the Company's customers exceeded 5% of total accounts receivable. In aggregate, these four customers accounted for approximately 31% of total accounts receivable. One of these four customers exceeded 10% of total accounts receivable.

Income Taxes – The Company has elected for two of its existing subsidiaries to be taxed as taxable REIT subsidiaries pursuant to the REIT rules of the U.S. Internal Revenue Code.

For the taxable REIT subsidiaries, income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

A deferred tax benefit has been recognized in the three months ended March 31, 2018, in connection with recorded operating losses. As of June 30, 2018, one of the Company's taxable REIT subsidiaries is in a net deferred tax liability position primarily due to customer-based intangibles acquired as part of the acquisition of Carpathia on June 16, 2015. However, it is expected that the forecasted annual activity will drive this taxable REIT subsidiary into a net deferred tax asset position by the end of 2018. The impact of the 2018 forecasted annual activity will more-likely-than-not result in the need for a federal and state valuation allowance during the balance of 2018, and therefore, the expectation of a valuation allowance has been built into the Company's estimated annual effective tax rate for the quarter.

The Company provides for income taxes during interim periods based on the estimated effective tax rate for the year. The effective tax rate is subject to change in the future due to various factors such as the operating performance of the taxable REIT subsidiaries, tax law changes and future business acquisitions. The taxable REIT subsidiaries' effective

tax rates were 10.8% and 39.1% for the six months ended June 30, 2018 and 2017, respectively.

On December 22, 2017, the Tax Cuts and Jobs Act ("the Act"), was signed into law by President Trump. The Act contains several provisions, including the lowering of the U.S. corporate income tax rate from 35 percent to 21 percent, effective January 1, 2018.

The Company is following the guidance in SEC Staff Accounting Bulletin 118 ("SAB 118"), which provides additional clarification regarding the application of ASC Topic 740, Income Taxes, in situations where the Company may not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act for the reporting period in which the Act was enacted. SAB 118 provides for a measurement period beginning in the reporting period that includes the Act's enactment date and ending when the Company has obtained, prepared, and analyzed the information needed in order to complete the accounting requirements but in no circumstances should the measurement period extend beyond one year from the enactment date.

Upon completion of the Company's 2017 federal income tax return in 2018, additional re-measurement adjustments may be identified with respect to the recorded deferred tax assets (liabilities). The Company will continue to assess the provision for income taxes as future guidance is issued, but does not currently anticipate that significant revisions will be necessary. Any such revisions will be treated in accordance with the measurement period guidance outlined in SAB 118.

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Fair Value Measurements – ASC Topic 820, Fair Value Measurement, emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, a fair value hierarchy is established that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

As of June 30, 2018, the Company valued its interest rate swaps which were entered into in April 2017 primarily utilizing Level 2 inputs. See Note 14 – 'Fair Value of Financial Instruments' for additional details.

New Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the current lease guidance in ASC 840, Leases. The core principle of Topic 842 requires lessees to recognize the assets and liabilities that arise from nearly all leases in the statement of financial position. Accounting applied by lessors will remain largely consistent with previous guidance, with additional changes set to align lessor accounting with the revised lessee model and the FASB's revenue recognition guidance in Topic 606. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The standard requires a modified retrospective transition approach. In July 2018, the FASB issued ASU 2018-11, Leases – Targeted Improvements (Topic 842), which updated the lease standard to include practical expedients that remove the requirement to restate prior period financial statements upon adoption of the standard as well as a practical expedient which allows lessors not to separate non-lease components from the related lease components if both the timing and pattern of transfer are the same for the non-lease component(s) and related lease component and the combined single lease component would be classified as an operating lease. The Company plans to adopt ASC 842 effective January 1, 2019, and will apply the transition relief under the new lease standard as of January 1, 2019. As lessee, the Company does not anticipate the classification of its leases to change but will recognize a new initial lease liability and right-of-use asset on the consolidated balance sheet for all operating leases which is expected to be material to our consolidated balance sheet. As lessor, accounting for our leases will remain largely unchanged, apart

from the narrower definition of initial direct costs that can be capitalized. The new lease standard more narrowly defines initial direct costs as only costs that are incremental at the signing of a lease. As the Company does not currently capitalize material non-incremental costs, it expects the impact of this change to be immaterial to the financial statements. Upon adoption of the standard on January 1, 2019, including the transition relief provided in ASU 2018-11, the Company will not be required to restate prior period comparative financial statements to include a right of use asset and liability from the Company's operating leases as lessee. Additionally, from a lessor perspective, the transition relief will alleviate the Company's need to separate lease from non-lease components within its rental revenue contracts. The Company will disclose any changes to this analysis as identified.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The standard changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The Company adopted this standard as of January 1, 2018, and as a result of this new

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guidance, acquisitions may now be more likely to result in a transaction being classified as an asset purchase rather than a business combination.

In January 2017, the FASB issued ASU 2017-04, Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. The new guidance eliminates the requirement to calculate the implied fair value of goodwill (i.e., Step 2 of today's goodwill impairment test) to measure a goodwill impairment charge. Instead, entities will record an impairment charge based on the excess of a reporting unit's carrying amount over its fair value (i.e., measure the charge based on today's Step 1). The guidance will be applied prospectively and is effective for calendar year-end public companies in 2020, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company does not expect the provisions of the standard will have a material impact on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in ASU 2017-12 change the recognition and presentation requirements of hedge accounting, including the elimination of the requirement to separately measure and report hedge ineffectiveness and the addition of a requirement to present all items that affect earnings in the same income statement line item as the hedged item. ASU 2017-12 also provides new alternatives for: applying hedge accounting to additional hedging strategies; measuring the hedged item in fair value hedges of interest rate risk; reducing the cost and complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method; and reducing the risk of material error correction if a company applies the shortcut method inappropriately. The guidance is effective for public entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early application is permitted. The Company does not expect the provisions of the standard will have a material impact on its consolidated financial statements.

3. Acquired Intangible Assets and Liabilities

Summarized below are the carrying values for the major classes of intangible assets and liabilities (unaudited and in thousands):

		June 30, 2018			December 31, 2017		
	Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer Relationships	1 to 12 years	\$ 95,705	\$ (24,486)	\$ 71,219	\$ 95,705	\$ (20,512)	\$ 75,193
In-Place Leases	0.5 to 10 years	32,066	(15,419)	16,647	32,066	(12,987)	19,079
Solar Power Agreement	17 years	13,747	(3,235)	10,512	13,747	(2,830)	10,917

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(1)							
Platform	3 years						
Intangible		9,600	(9,600)	—	9,600	(8,133)	1,467
Acquired	0.5 to 8 years						
Favorable							
Leases		4,649	(2,825)	1,824	4,649	(2,328)	2,321
Tradenames	3 years	3,100	(3,100)	—	3,100	(2,626)	474
Total							
Intangible							
Assets		\$ 158,867	\$ (58,665)	\$ 100,202	\$ 158,867	\$ (49,416)	\$ 109,451
Solar Power	17 years						
Agreement							
(1)		13,747	(3,235)	10,512	13,747	(2,830)	10,917
Acquired							
Unfavorable							
Leases							
Acquired	3 to 4 years						
below market							
leases - as							
Lessor		809	(493)	316	809	(375)	434
Acquired	11 to 12 years						
above market							
leases - as							
Lessee		2,453	(658)	1,795	2,453	(550)	1,903
Total							
Intangible							
Liabilities (2)		\$ 17,009	\$ (4,386)	\$ 12,623	\$ 17,009	\$ (3,755)	\$ 13,254

- (1) Amortization related to the Solar Power Agreement asset and liability is recorded at the same rate and therefore has no net impact on the statement of operations.
- (2) Intangible liabilities are included within the “Advance rents, security deposits and other liabilities” line item of the consolidated balance sheets.

Above or below market leases are amortized as a reduction to or increase in rental revenue as well as a reduction to rent expense in the case of the Company as lessee over the remaining lease terms. The net effect of amortization of acquired above market and below market leases resulted in a net decrease in rental revenue of \$0.1 million and \$0.2 million for the three months ended June 30, 2018 and 2017, respectively. The net effect of amortization of acquired above market and below market leases resulted in a net decrease in rental revenue of \$0.3 million and \$0.5 million for the six months

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ended June 30, 2018 and 2017, respectively. The estimated amortization of acquired favorable and unfavorable leases for each of the five succeeding fiscal years ending December 31 is as follows (unaudited and in thousands):

	Net Rental Revenue Decreases	Rental Expense Decreases
2018 (July - December)	\$ 302	\$ 108
2019	479	216
2020	647	216
2021	46	216
2022	17	216
Thereafter	17	823
Total	\$ 1,508	\$ 1,795

Net amortization of all other identified intangible assets and liabilities was \$4.3 million and \$4.6 million for the three months ended June 30, 2018 and 2017, respectively. Net amortization of all other identified intangible assets and liabilities was \$8.3 million and \$9.3 million for the six months ended June 30, 2018 and 2017, respectively. The estimated net amortization of all other identified intangible assets and liabilities for each of the five succeeding fiscal years ending December 31 is as follows (unaudited and in thousands):

2018 (July - December)	\$ 6,226
2019	11,965
2020	11,379
2021	10,137
2022	9,910
Thereafter	38,249
Total	\$ 87,866

4. Real Estate Assets and Construction in Progress

The following is a summary of properties owned or leased by the Company as of June 30, 2018 and December 31, 2017 (in thousands):

As of June 30, 2018 (unaudited):

Buildings,

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Property Location	Land	Improvements and Equipment	Construction in Progress	Total Cost
Atlanta, Georgia (Atlanta-Metro)	\$ 20,416	\$ 463,246	\$ 30,336	\$ 513,998
Irving, Texas	8,606	325,474	94,348	428,428
Richmond, Virginia	2,180	253,122	65,797	321,099
Chicago, Illinois	9,400	98,366	134,579	242,345
Suwanee, Georgia (Atlanta-Suwanee)	3,521	168,813	3,834	176,168
Ashburn, Virginia (1)	17,326	57,822	122,651	197,799
Piscataway, New Jersey	7,466	84,745	39,411	131,622
Santa Clara, California (2)	—	97,610	7,112	104,722
Dulles, Virginia	3,154	76,521	4,143	83,818
Sacramento, California	1,481	64,476	77	66,034
Leased Facilities (3)	—	56,372	8,478	64,850
Fort Worth, Texas	9,078	18,394	36,094	63,566
Princeton, New Jersey	20,700	33,367	428	54,495
Phoenix, Arizona (1)	—	—	28,691	28,691
Hillsboro, Oregon (1)	—	—	34,420	34,420
Manassas, Virginia (1)	—	—	39,151	39,151
Other (4)	2,213	35,542	216	37,971
	\$ 105,541	\$ 1,833,870	\$ 649,766	\$ 2,589,177

-
- (1) Represent land purchases. Land acquisition costs, as well as subsequent development costs, are included within construction in progress until development on the land has ended and the asset is ready for its intended use.
- (2) Owned facility subject to long-term ground sublease.
- (3) Includes 11 facilities. All facilities are leased, including those subject to capital leases.
- (4) Consists of Miami, FL; Lenexa, KS; and Overland Park, KS facilities.

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As of December 31, 2017:

Property Location	Land	Buildings, Improvements and Equipment	Construction in Progress	Total Cost
Atlanta, Georgia (Atlanta-Metro)	\$ 20,416	\$ 452,836	\$ 28,614	\$ 501,866
Irving, Texas	8,606	276,894	86,320	371,820
Richmond, Virginia	2,180	254,603	61,888	318,671
Chicago, Illinois	9,400	81,463	135,479	226,342
Suwanee, Georgia (Atlanta-Suwanee)	3,521	165,915	3,620	173,056
Ashburn, Virginia (1)	—	—	106,952	106,952
Piscataway, New Jersey	7,466	83,251	37,807	128,524
Santa Clara, California (2)	—	100,028	6,989	107,017
Dulles, Virginia	3,154	76,239	3,565	82,958
Sacramento, California	1,481	64,251	58	65,790
Leased Facilities (3)	—	59,460	5,534	64,994
Fort Worth, Texas	9,079	17,894	33,774	60,747
Princeton, New Jersey	20,700	32,948	451	54,099
Phoenix, Arizona (1)	—	—	27,402	27,402
Hillsboro, Oregon (1)	—	—	29,278	29,278
Other (4)	2,213	35,505	88	37,806
	\$ 88,216	\$ 1,701,287	\$ 567,819	\$ 2,357,322

- (1) Represent land purchases. Land acquisition costs, as well as subsequent development costs, are included within construction in progress until development on the land has ended and the asset is ready for its intended use.
- (2) Owned facility subject to long-term ground sublease.
- (3) Includes 11 facilities. All facilities are leased, including those subject to capital leases.
- (4) Consists of Miami, FL; Lenexa, KS; Overland Park, KS; and Duluth, GA facilities.

5. Debt

Below is a listing of the Company's outstanding debt, including capital leases and lease financing obligations, as of June 30, 2018 and December 31, 2017 (in thousands):

Weighted Average		June 30,	December
Coupon Interest Rate at		2018	31,
June 30, 2018	Maturities	(unaudited)	2017
(unaudited)			

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Unsecured Credit Facility		December 17,		
Revolving Credit Facility		2021	\$ —	\$ 131,000
	3.60%			
Term Loan I		December 17,		
	3.49%	2022	350,000	350,000
Term Loan II		April 27, 2023	350,000	350,000
Senior Notes		November 15,		
	4.75%	2025	400,000	400,000
Lenexa Mortgage		May 1, 2022	1,834	1,866
Capital Lease and Lease Financing	4.10%			
Obligations		2019	4,383	8,699
	1.96%		1,106,217	1,241,565
	3.95%			
Less net debt issuance costs			(10,843)	(11,636)
Total outstanding debt, net			\$ 1,095,374	\$ 1,229,929

Credit Facilities, Senior Notes and Mortgage Notes Payable

(a) Unsecured Credit Facility – In December 2017, the Company executed an amendment to its amended and restated unsecured credit facility (the “unsecured credit facility”), increasing the total capacity to \$1.52 billion and extending the term. The unsecured credit facility includes a \$350 million term loan which matures on December 17, 2022, a \$350 million term loan which matures on April 27, 2023, and an \$820 million revolving credit facility which matures on December 17, 2021, with a one year extension option. Amounts outstanding under the amended unsecured credit facility

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bear interest at a variable rate equal to, at the Company's election, LIBOR or a base rate, plus a spread that will vary depending upon the Company's leverage ratio. For revolving credit loans, the spread ranges from 1.55% to 2.15% for LIBOR loans and 0.55% to 1.15% for base rate loans. For term loans, the spread ranges from 1.50% to 2.10% for LIBOR loans and 0.50% to 1.10% for base rate loans. The unsecured credit facility also includes a \$400 million accordion feature.

Under the unsecured credit facility, the capacity may be increased from the current capacity of \$1.52 billion to \$1.92 billion subject to certain conditions set forth in the credit agreement, including the consent of the administrative agent and obtaining necessary commitments. The Company is also required to pay a commitment fee to the lenders assessed on the unused portion of the unsecured revolving credit facility. At the Company's election, it can prepay amounts outstanding under the unsecured credit facility, in whole or in part, without penalty or premium.

The Company's ability to borrow under the amended unsecured credit facility is subject to ongoing compliance with a number of customary affirmative and negative covenants, including limitations on liens, mergers, consolidations, investments, distributions, asset sales and affiliate transactions, as well as the following financial covenants: (i) the Operating Partnership's and its subsidiaries' consolidated total unsecured debt plus any capitalized lease obligations with respect to the unencumbered asset pool properties may not exceed 60% of the unencumbered asset pool value (or 65% of the unencumbered asset pool value for up to two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated); (ii) the unencumbered asset pool debt yield cannot be less than 14% (or 12.5% for the two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated); (iii) QTS must maintain a minimum fixed charge coverage ratio (defined as the ratio of consolidated EBITDA, subject to certain adjustments, to consolidated fixed charges) for the prior two most recently-ended calendar quarters of 1.70 to 1.00; (iv) QTS must maintain a maximum debt to gross asset value (as defined in the amended and restated agreement) ratio of 60% (or 65% for the two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated); (v) QTS must maintain tangible net worth (as defined in the amended and restated agreement) cannot be less than the sum of \$1,209,000,000 plus 75% of the net proceeds from any subsequent equity offerings; and (vi) a maximum distribution payout ratio of the greater of (i) 95% of the Company's Funds from Operations (as defined in the amended and restated agreement) and (ii) the amount required for the Company to qualify as a REIT under the Code.

The availability under the revolving credit facility is the lesser of (i) \$820 million, (ii) 60% of the unencumbered asset pool capitalized value (or 65% of the unencumbered asset pool capitalized value for the two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated) and (iii) the amount resulting in an unencumbered asset pool debt yield of 14% (or 12.5% for the two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated). In the case of clauses (ii) and (iii) of the preceding sentence, the amount available under the revolving credit facility is adjusted to take into account any other unsecured debt and certain capitalized

leases. A material acquisition is an acquisition of properties or assets with a gross purchase price equal to or in excess of 15% of the Operating Partnership's gross asset value (as defined in the amended and restated agreement) as of the end of the most recently ended quarter for which financial statements are publicly available. The availability of funds under the unsecured credit facility depends on compliance with certain covenants.

As of June 30, 2018, the Company had outstanding \$700 million of indebtedness under the unsecured credit facility, all of which was outstanding under the term loans, exclusive of net debt issuance costs of \$5.2 million. There were no outstanding borrowings on the Company's unsecured revolving credit facility as of June 30, 2018. In connection with the unsecured credit facility, as of June 30, 2018, the Company had letters of credit outstanding aggregating to \$4.1 million. As of June 30, 2018, the weighted average interest rate for amounts outstanding under the unsecured credit facility, including the effects of interest rate swaps, was 3.50%.

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The Company has entered into interest rate swap agreements with an aggregate notional amount of \$400 million. See Note 6 – ‘Interest Rate Swaps’ for additional details.

(b) Senior Notes – On November 8, 2017, the Operating Partnership and QTS Finance Corporation, a subsidiary of the Operating Partnership formed solely for the purpose of facilitating the offering of the 5.875% Senior Notes due 2022 (collectively, the “Issuers”), the Company and certain of its other subsidiaries entered into a purchase agreement pursuant to which the Issuers issued \$400 million aggregate principal amount of 4.75% Senior Notes due November 15, 2025 (the “Senior Notes”) in a private offering. The Senior Notes have an interest rate of 4.750% per annum and were issued at a price equal to 100% of their face value. The net proceeds from the offering were used to fund the redemption of, and satisfy and discharge the indenture pursuant to which the Issuers issued, all of their outstanding 5.875% Senior Notes due 2022 and to repay a portion of the amount outstanding under the Company’s unsecured revolving credit facility. As of June 30, 2018, the outstanding net debt issuance costs associated with the Senior Notes were \$5.6 million.

The Senior Notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis by all of the Operating Partnership’s existing subsidiaries (other than foreign subsidiaries and receivables entities) and future subsidiaries that guarantee any indebtedness of QTS Realty Trust, Inc., the Issuers or any other subsidiary guarantor, other than QTS Finance Corporation, the co-issuer of the Senior Notes. QTS does not guarantee the Senior Notes and will not be required to guarantee the Senior Notes except under certain circumstances. The offering was conducted pursuant to Rule 144A of the Securities Act of 1933, as amended, and the Senior Notes were issued pursuant to an indenture, dated as of November 8, 2017, among QTS, the Issuers, the guarantors named therein, and Deutsche Bank Trust Company Americas, as trustee.

The annual remaining principal payment requirements as of June 30, 2018 per the contractual maturities and excluding extension options, capital leases and lease financing obligations, are as follows (unaudited and in thousands):

2018	\$ 28
2019	68
2020	71
2021	74
2022	350,077
Thereafter	751,516
Total	\$ 1,101,834

As of June 30, 2018, the Company was in compliance with all of its covenants.

Capital Leases

The Company has historically entered into capital leases for certain equipment. In addition, through its acquisition of Carpathia on June 16, 2015, the Company acquired capital leases of both equipment and certain properties. Total outstanding liabilities for capital leases were \$3.9 million as of June 30, 2018, of which \$2.9 million were assumed through the Carpathia acquisition, all of which was related to the lease of real property. Carpathia had entered into capital lease arrangements for data center space under two lease agreements expiring in 2018 and 2019 at its Harrisonburg, Virginia and Ashburn, Virginia locations. Total recurring monthly payments range from approximately \$0.2 million to \$0.5 million during the terms of the leases, in addition to payments made for utilities. Depreciation related to the associated assets for the capital leases is included in depreciation and amortization expense in the Statements of Operations and Statements of Comprehensive Income.

Lease Financing Obligations

The Company, through its acquisition of Carpathia has a lease financing agreement in connection with a \$4.8 million tenant improvement allowance on one of its data center lease agreements. The financing requires monthly payments of principal and interest of less than \$0.1 million through February 2019. The outstanding balance on the financing

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agreement was \$0.5 million as of June 30, 2018. Depreciation expense on the related leasehold improvements is included in depreciation and amortization expense in the Statements of Operations.

The following table summarizes the Company's combined future payment obligations, excluding interest, as of June 30, 2018, on the capital leases and lease financing obligations above (unaudited and in thousands):

2018	\$ 3,301
2019	956
2020	117
2021	9
2022	—
Thereafter	—
Total	\$ 4,383

6. Interest Rate Swaps

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

On April 5, 2017, the Company entered into forward interest rate swap agreements with an aggregate notional amount of \$400 million. The forward swap agreements effectively fix the interest rate on \$400 million of term loan borrowings, \$200 million of swaps allocated to each term loan, from January 2, 2018 through December 17, 2021 and April 27, 2022, respectively.

The Company reflects its forward interest rate swap agreements, which are designated as cash flow hedges, at fair value as either assets or liabilities on the consolidated balance sheets within the "Other assets, net" or "Advance rents, security deposits and other liabilities" line items, as applicable. As of June 30, 2018, the fair value of interest rate swaps was \$10.0 million, which was recorded within the "Other assets, net" line item of the consolidated balance sheet.

The forward interest rate swap agreements are derivatives that currently qualify for hedge accounting whereby the Company records the effective portion of changes in fair value of the interest rate swaps in accumulated other comprehensive income or loss on the consolidated balance sheets and statement of comprehensive income which is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings. Any ineffective portion of a derivative's change in fair value is immediately recognized within net income. The amount reclassified from other comprehensive income to interest expense on the consolidated statements of operations was \$0.1 million and \$0.5 million for the three and six months ended June 30, 2018. There was no ineffectiveness recognized for the three and six months ended June 30, 2018. No amounts were recorded in other comprehensive income or loss on the consolidated financial statements as of and for the three and six months ended June 30, 2017. During the subsequent twelve months, beginning July 1, 2018, we estimate that \$1.5 million will be reclassified from other comprehensive income as a reduction to interest expense.

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Interest rate derivatives and their fair values as of June 30, 2018 and December 31, 2017 were as follows (unaudited and in thousands):

Notional Amount		Fixed One Month LIBOR rate per			Fair Value	
June 30, 2018	December 31, 2017	annum	Effective Date	Expiration Date	June 30, 2018	December 31, 2017
\$ 25,000	\$ 25,000	1.989%	January 2, 2018	December 17, 2021	\$ 606	\$ 100
100,000	100,000	1.989%	January 2, 2018	December 17, 2021	2,436	401
75,000	75,000	1.989%	January 2, 2018	December 17, 2021	1,826	298
50,000	50,000	2.033%	January 2, 2018	April 27, 2022	1,272	158
100,000	100,000	2.029%	January 2, 2018	April 27, 2022	2,575	337
50,000	50,000	2.033%	January 2, 2018	April 27, 2022	1,279	155
\$ 400,000	\$ 400,000				\$ 9,994	\$ 1,449

7. Restructuring

On February 20, 2018, the Company announced a strategic growth plan to realign its product offerings around its hyperscale and hybrid colocation product offerings, along with technology and services from the Company's cloud and managed services business that support hyperscale and hybrid colocation customers. As part of the strategic growth plan, the Company is narrowing its focus around certain of its cloud and managed services offerings and on April 24, 2018, the Company entered into definitive agreements with General Datatech, L.P. ("GDT"), an international provider of managed IT solutions, pursuant to which QTS agreed to assign to GDT certain assets, contracts and liabilities associated with QTS' cloud and managed services products. These assets primarily consist of customer contracts and certain physical equipment. As of June 30, 2018, QTS had transitioned a portion of the assets, contracts and liabilities to GDT, and expects to complete the transfer of the remaining assets, contracts and liabilities by the end of 2018. In connection with the definitive agreements, the Company and GDT also agreed to an ongoing relationship where the Company will lease data center space to GDT as well as provide ongoing services to GDT to support the transitioned customers. The Company has incurred and will continue to incur various expenses associated with the strategic growth plan through 2018, with such costs included in the "Restructuring" line item on the consolidated income statement.

Restructuring expenses incurred during the six months ended June 30, 2018 are as follows (unaudited and in thousands):

Equity-Based

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	Severance	Compensation and Professional Fees	Product-Related and Other	Total
Restructuring expense	\$ 5,287	(1) \$ 7,071	(2) \$ 7,602	(3) \$ 19,960

(1)For the three months ended June 30, 2018, we incurred expenses of \$3,039. As of June 30, 2018, the outstanding liability for accrued but unpaid severance expense was \$2,863, which is included in “Accounts payable and accrued liabilities” line item of the consolidated balance sheets.

(2)For the three months ended June 30, 2018, we incurred expenses of \$5,135. As of June 30, 2018, there was no outstanding liability associated with this cost category.

(3)Product-related and other expenses primarily relate to impairment write-downs of depreciated property as well as losses incurred on the sale of equipment. For the three months ended June 30, 2018, we incurred expenses of \$3,256. As of June 30, 2018, there was no outstanding liability associated with this cost category.

In addition to the expenses incurred to date, the Company expects to incur a total of approximately \$5 million to \$10 million in expenses associated with this strategic growth plan through December 31, 2018. This does not include any charges that may be taken in future periods on remaining assets that are being transitioned to the Company’s strategic partner, as those specific assets have not yet been identified.

8. Commitments and Contingencies

The Company is subject to various routine legal proceedings and other matters in the ordinary course of business. The Company currently does not have any litigation that would have material adverse impact on the Company’s financial statements.

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9. Partners' Capital, Equity and Incentive Compensation Plans

QualityTech, LP

QTS has the full power and authority to do all the things necessary to conduct the business of the Operating Partnership.

As of June 30, 2018, the Operating Partnership had four classes of limited partnership units outstanding: Series A Preferred Stock Units, Series B Convertible Preferred Stock Units, Class A units of limited partnership interest ("Class A units") and Class O LTIP units of limited partnership units ("Class O units"). The Class A units are now redeemable at any time for cash or shares of Class A common stock of QTS. The Company may in its sole discretion elect to assume and satisfy the redemption amount with cash or its shares. Class O units were issued upon grants made under the QualityTech, LP 2010 Equity Incentive Plan (the "2010 Equity Incentive Plan"). Class O units are pari passu with Class A units. Each Class O unit is convertible into Class A units by the Operating Partnership at any time or by the holder at any time following full vesting (if such unit is subject to vesting) based on formulas contained in the partnership agreement.

QTS Realty Trust, Inc.

In connection with its IPO, QTS issued Class A common stock and Class B common stock. Class B common stock entitles the holder to 50 votes per share and was issued to enable the Company's Chief Executive Officer to exchange 2% of his Operating Partnership units so he may have a vote proportionate to his economic interest in the Company. Also in connection with its IPO, QTS adopted the QTS Realty Trust, Inc. 2013 Equity Incentive plan (the "2013 Equity Incentive Plan"), which authorized 1.75 million shares of Class A common stock to be issued under the plan, including upon exercise of options to purchase Class A common stock. In May 2015, the total number of shares available for issuance under the 2013 Equity Incentive Plan was increased to 4,750,000.

The following is a summary of award activity under the 2010 Equity Incentive Plan and 2013 Equity Incentive Plan and related information for the six months ended June 30, 2018 (unaudited):

2010 Equity Incentive Plan			2013 Equity Incentive Plan			
Number of	Weighted average	Weighted average fair	Weighted average	Weighted average fair	Restricted	Weighted average grant date

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	Class O units	exercise price	value	Options	exercise price	value	Stock	value
Outstanding at December 31, 2017	568,040	\$ 23.52	\$ 5.00	1,369,270	\$ 38.18	\$ 7.80	381,864	\$ 46.37
Granted	—	—	—	672,549	34.03	5.63	347,444	35.27
Exercised/Vested (1)	(461,136)	23.30	4.73	(813)	22.74	4.06	(141,631)	47.85
Cancelled/Expired	—	—	—	—	—	—	(43,877) (2)	46.53
Outstanding at June 30, 2018	106,904	\$ 24.47	\$ 6.16	2,041,006	\$ 36.82	\$ 7.08	543,800	\$ 38.88

- (1) This represents the Class A common stock that has been released from restriction and which was not surrendered by the holder to satisfy their statutory minimum federal and state tax obligations associated with the vesting of restricted common stock. This also represents Class O units which were converted to Class A units and Options to purchase Class A common stock which were exercised for their respective columns.
- (2) Includes restricted Class A common stock surrendered by certain employees to satisfy their federal and state tax obligations associated with the vesting of restricted common stock.

The assumptions and fair values for restricted stock and options to purchase shares of Class A common stock granted for the six months ended June 30, 2018 are included in the following table on a per unit basis (unaudited). Options to purchase shares of Class A common stock were valued using the Black-Scholes model.

	Six Months Ended June 30, 2018
Fair value of restricted stock granted	\$34.03 - \$54.01
Fair value of options granted	\$5.55 - \$5.64
Expected term (years)	5.5 - 6.0
Expected volatility	28%
Expected dividend yield	4.82%
Expected risk-free interest rates	2.69% - 2.73%

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The following tables summarize information about awards outstanding as of June 30, 2018 (unaudited).

Operating Partnership Awards Outstanding			
	Exercise prices	Awards outstanding	Weighted average remaining vesting period (years)
Class O Units	\$ 20.00 - 25.00	106,904	—
Total Operating Partnership awards outstanding		106,904	

QTS Realty Trust, Inc. Awards Outstanding			
	Exercise prices	Awards outstanding	Weighted average remaining vesting period (years)
Restricted stock	\$ —	543,800	1.8
Options to purchase Class A common stock	\$ 21.00 - 50.66	2,041,006	1.2
Total QTS Realty Trust, Inc. awards outstanding		2,584,806	

As of June 30, 2018, there were no Class RS units outstanding. Any remaining nonvested awards are valued as of the grant date and generally vest ratably over a defined service period. As of June 30, 2018 there were approximately 0.5 million and 0.9 million nonvested restricted Class A common stock and options to purchase Class A common stock outstanding, respectively. As of June 30, 2018 the Company had \$21.7 million of unrecognized equity-based compensation expense which will be recognized over a remaining weighted-average vesting period of 1.3 years. The total intrinsic value of the awards outstanding at June 30, 2018 was \$35.0 million.

Dividends and Distributions

The following table presents quarterly cash dividends and distributions paid to QTS' common and preferred stockholders and the Operating Partnership's unit holders for the six months ended June 30, 2018 (unaudited):

Six Months Ended June 30, 2018

Per Share and	Aggregate Dividend/Distribution
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Record Date	Payment Date	Per Unit Rate	Amount (in millions)
Common Stock			
December 5, 2017	January 5, 2018	\$ 0.39	\$ 22.2
March 22, 2018	April 5, 2018	\$ 0.41	\$ 23.7
			\$ 45.9
Series A Preferred Stock			
April 5, 2018	April 16, 2018	\$ 0.15	\$ 0.6

Additionally, on July 6, 2018, the Company paid its regular quarterly cash dividend of \$0.41 per common share and per unit in the Operating Partnership to stockholders and unit holders of record as of the close of business on June 20, 2018.

Additionally, on July 16, 2018, the Company paid a quarterly cash dividend of approximately \$0.45 per share on its Series A Preferred Stock.

Equity Issuances

In March 2017, QTS established an “at-the-market” equity offering program (the “ATM Program”) pursuant to which the Company may issue, from time to time, up to \$300 million of its Class A common stock. The Company issued no shares under the ATM Program during the six months ended June 30, 2018.

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On March 15, 2018, QTS issued 4,280,000 shares of 7.125% Series A Cumulative Redeemable Perpetual Preferred Stock (“Series A Preferred Stock”) with a liquidation preference of \$25.00 per share, which included 280,000 shares of the underwriters’ partial exercise of their option to purchase additional shares. The Company used the net proceeds of approximately \$103.2 million to repay amounts outstanding under its unsecured revolving credit facility. In connection with the issuance of the Series A Preferred Stock, on March 15, 2018 the Operating Partnership issued to the Company 4,280,000 Series A Preferred Units, which have economic terms that are substantially similar to the Company’s Series A Preferred Stock. The Series A Preferred Units were issued in exchange for the Company’s contribution of the net offering proceeds of the offering of the Series A Preferred Stock to the Operating Partnership.

Dividends on the Series A Preferred Stock are payable quarterly in arrears on or about the 15th day of each January, April, July and October. The first dividend on the Series A Preferred Stock was paid on April 16, 2018, in the amount of \$0.14844 per share. The Series A Preferred Stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. Upon liquidation, dissolution or winding up, the Series A Preferred Stock will rank senior to common stock and pari passu with the Series B Preferred Stock with respect to the payment of distributions and other amounts. Except in instances relating to preservation of QTS’s qualification as a REIT or pursuant to the Company’s special optional redemption right, the Series A Preferred Stock is not redeemable prior to March 15, 2023. On and after March 15, 2023, the Company may, at its option, redeem the Series A Preferred Stock, in whole, at any time, or in part, from time to time, for cash at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends (whether or not declared) to, but not including, the date of redemption.

Upon the occurrence of a change of control, the Company has a special optional redemption right that enables it to redeem the Series A Preferred Stock, in whole, at any time, or in part, from time to time, within 120 days after the first date on which a change of control has occurred resulting in neither QTS nor the surviving entity having a class of common shares listed on the NYSE, NYSE Amex, or NASDAQ or the acquisition of beneficial ownership of its stock entitling a person to exercise more than 50% of the total voting power of all our stock entitled to vote generally in election of directors. The special optional redemption price is \$25.00 per share, plus any accrued and unpaid dividends (whether or not declared) to, but not including, the date of redemption.

Upon the occurrence of a change of control, holders will have the right (unless the Company has elected to exercise its special optional redemption right to redeem their Series A Preferred Stock) to convert some or all of such holder’s Series A Preferred Stock into a number of shares of Class A common stock, par value \$0.01 per share, equal to the lesser of:

- the quotient obtained by dividing (i) the sum of the \$25.00 liquidation preference plus the amount of any accrued and unpaid dividends (whether or not declared) to, but not including, the change of control conversion date (unless the change of control conversion date is after a record date for a Series A Preferred Stock dividend payment and prior to the corresponding Series A Preferred Stock dividend payment date, in which case no additional amount for such accrued and unpaid dividend will be included in this sum) by (ii) the Common Stock Price; and
- 1.46929 (i.e., the Share Cap);

subject, in each case, to certain adjustments and provisions for the receipt of alternative consideration of equivalent value as described in the prospectus supplement for the Series A Preferred Stock.

On June 20, 2018, QTS issued 3,162,500 shares of 6.50% Series B Cumulative Convertible Perpetual Preferred Stock ("Series B Preferred Stock") with a liquidation preference of \$100.00 per share, which included 412,500 shares the underwriters purchased pursuant to the exercise of their overallotment option in full. The Company used the net proceeds of approximately \$304 million to repay amounts outstanding under its unsecured revolving credit facility. In connection with the issuance of the Series B Preferred Stock, on June 25, 2018 the Operating Partnership issued to the Company 3,162,500 Series B Preferred Units, which have economic terms that are substantially similar to the Company's Series B Preferred Stock. The Series B Preferred Units were issued in exchange for the Company's contribution of the net offering proceeds of the offering of the Series B Preferred Stock to the Operating Partnership.

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Dividends on the Series B Preferred Stock are payable quarterly in arrears on or about the 15th day of each January, April, July and October. The first dividend on the Series B Preferred Stock will be paid on October 15, 2018. The Series B Preferred Stock is convertible by holders into shares of Class A common stock at any time at the then-prevailing conversion rate. The initial conversion rate is 2.1264 shares of the Company's Class A common stock per share of Series B Preferred Stock. The Series B Preferred Stock does not have a stated maturity date. Upon liquidation, dissolution or winding up, the Series B Preferred Stock will rank senior to common stock and pari passu with the Series A Preferred Stock with respect to the payment of distributions and other amounts. The Series B Preferred Stock will not be redeemable by the Company. At any time on or after July 20, 2023, the Company may at its option cause all (but not less than all) outstanding shares of the Series B Preferred Stock to be automatically converted into the Company's Class A common stock at the then-prevailing conversion rate if the closing sale price of the Company's Class A common stock is equal to or exceeds 150% of the then-prevailing conversion price for at least 20 trading days in a period of 30 consecutive trading days, including the last trading day of such 30-day period, ending on the trading day prior to the issuance of a press release announcing the mandatory conversion.

If a holder converts its shares of Series B Preferred Stock at any time beginning at the opening of business on the trading day immediately following the effective date of a fundamental change (as described in the prospectus supplement) and ending at the close of business on the 30th trading day immediately following such effective date, the holder will automatically receive a number of shares of the Company's Class A common stock equal to the greater of:

- the sum of (i) a number of shares of the Company's Class A common stock, as may be adjusted, as described in the Articles Supplementary for the 6.50% Series B Cumulative Convertible Perpetual Preferred Stock filed with the State Department of Assessments and Taxation of Maryland on June 22, 2018 (the "Articles Supplementary") and (ii) the make-whole premium described in the Articles Supplementary; and
- a number of shares of the Company's Class A common stock equal to the lesser of (i) the liquidation preference divided by the average of the daily volume weighted average prices of the Company's Class A common stock for ten days preceding the effective date of a fundamental change and (ii) 5.1020 (subject to adjustment).

QTS Realty Trust, Inc. Employee Stock Purchase Plan

In June 2015, the Company established the QTS Realty Trust, Inc. Employee Stock Purchase Plan (the "2015 Plan") to give eligible employees the opportunity to purchase, through payroll deductions, shares of the Company's Class A common stock in the open market by an independent broker with the Company paying the brokerage commissions and fees associated with such share purchases. The 2015 Plan became effective July 1, 2015. The Company reserved 250,000 shares of its Class A common stock for purchase under the 2015 Plan, which were registered pursuant to a registration statement on Form S-8 filed on June 17, 2015.

On May 4, 2017, the stockholders of the Company approved an amendment and restatement of the Plan (the "2017 Plan"). The 2017 Plan became effective July 1, 2017 and is administered by the Compensation Committee of the board of directors (or by a committee of one or more persons appointed by it or the board of directors). The 2017 Plan permits participants to purchase the Company's Class A common stock at a discount of up to 10% (as determined by the Compensation Committee). Employees of the Company and its majority-owned subsidiaries who have been employed for at least thirty days and who perform at least thirty hours of service per week for the Company are eligible to participate in the 2017 Plan, excluding any employee who, at any time during which the payroll deductions are made on behalf of the participating employees to purchase stocks, owns shares representing five percent or more

of the total combined voting power or value of all classes of shares of the Company, or who is a Section 16 officer. Under the 2017 Plan, there are four purchase periods per year, and participants may deduct a minimum of \$20 per paycheck and a maximum of \$1,000 per paycheck towards the purchase of shares. Shares purchased under the 2017 Plan are subject to a one-year holding period following the purchase date, during which they may not be sold or transferred.

10. Related Party Transactions

The Company periodically executes transactions with entities affiliated with its Chairman and Chief Executive Officer. Such transactions include automobile, furniture and equipment purchases as well as building operating lease payments and receipts, and reimbursement for the use of a private aircraft service by the Company's officers and directors.

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The transactions which occurred during the three and six months ended June 30, 2018 and 2017 are outlined below (unaudited and in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Tax, utility, insurance and other reimbursement	\$ 135	\$ 206	\$ 396	\$ 349
Rent expense	253	254	507	508
Capital assets acquired	46	119	204	352
Total	\$ 434	\$ 579	\$ 1,107	\$ 1,209

11. Noncontrolling Interest

Concurrently with the completion of the IPO, QTS consummated a series of transactions pursuant to which QTS became the sole general partner and majority owner of QualityTech, LP, which then became its operating partnership. The previous owners of QualityTech, LP retained 21.2% ownership of the Operating Partnership as of the date of the IPO.

Commencing at any time beginning November 1, 2014, at the election of the holders of the noncontrolling interest, the Class A units of the Operating Partnership are redeemable for cash or, at the election of the Company, Class A common stock of the Company on a one-for-one basis. As of June 30, 2018, the noncontrolling ownership interest percentage of QualityTech, LP was approximately 11.5%.

12. Earnings per share of QTS Realty Trust, Inc.

Basic income per share is calculated by dividing the net income attributable to common shares by the weighted average number of common shares outstanding during the period. Diluted income per share adjusts basic income per share for the effects of potentially dilutive common shares. Unvested restricted stock awards contain non-forfeitable rights to dividends and thus are participating securities and are included in the computation of earnings per share pursuant to the two-class method for all periods presented. The two-class method is an earnings allocation formula that treats a participating security as having rights to undistributed earnings that would otherwise have been available to common stockholders. Accordingly, service-based restricted stock awards were included in the calculation of

earnings per share using the two-class method for all periods presented.

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The computation of basic and diluted net income per share is as follows (in thousands, except per share data, and unaudited):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income (loss)	\$ (6,433)	\$ 4,608	\$ (6,685)	\$ 10,176
Loss (income) attributable to noncontrolling interests	1,002	(568)	1,031	(1,259)
Preferred stock dividends	(2,248)	—	(2,576)	
Earnings attributable to participating securities	(227)	356	(485)	814
Net income (loss) available to common stockholders after allocation of participating securities	\$ (7,906)	\$ 4,396	\$ (8,715)	\$ 9,731
Denominator:				
Weighted average shares outstanding - basic	50,452	47,666	50,366	47,562
Effect of Class A and Class RS partnership units	—	6,783	—	6,783
Effect of Class O units and options to purchase Class A common stock on an "as if" converted basis	—	1,009	—	991
Weighted average shares outstanding - diluted	50,452	55,458	50,366	55,336
Basic net income (loss) per share	\$ (0.16)	\$ 0.08	\$ (0.17)	\$ 0.18
Diluted net income (loss) per share	\$ (0.16)	\$ 0.08	\$ (0.17)	\$ 0.17

Note: The table above does not include Class A partnership units of 6.7 million and 6.8 million for the three months ended June 30, 2018 and 2017, respectively, 0.2 million reflecting the effects of Class O units and options to purchase common stock on an "as if" converted basis for the three months ended June 30, 2018, and 0.4 million reflecting the effects of Series B Convertible preferred stock on an "as if" converted basis for the three months ended June 30, 2018, as their respective inclusion would have been antidilutive. Does not include Class A partnership units of 6.6 million and 6.8 million for the six months ended June 30, 2018 and 2017, respectively, 0.4 million reflecting the effects of Class O units and options to purchase common stock on an "as if" converted basis for the six months ended June 30, 2018, and 0.2 million reflecting the effects of Series B Convertible preferred stock on an "as if" converted basis for the six months ended June 30, 2018, as their respective inclusion would have been antidilutive.

13. Contracts with Customers

Future minimum payments to be received under non-cancelable customer contracts (inclusive of payments for contracts which have not yet commenced, and exclusive of recoveries of operating costs from customers) are as follows for the years ending December 31 (unaudited and in thousands):

2018 (July - December)	\$ 173,924
2019	304,475
2020	234,246
2021	185,569
2022	117,924
Thereafter	137,210
Total	\$ 1,153,348

14. Fair Value of Financial Instruments

ASC Topic 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the consolidated balance sheets, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based upon the application of discount rates to estimated future cash flows based upon market yields or by using other valuation methodologies. Considerable judgment is necessary to interpret market data and develop estimated fair value. Accordingly, fair values are not necessarily

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indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on estimated fair value amounts.

Short-term instruments: The carrying amounts of cash and cash equivalents and restricted cash approximate fair value.

Interest rate swaps: Currently, the Company uses interest rate swaps to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves.

To comply with the provisions of fair value accounting guidance, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by the Company and its counterparties. However, as of June 30, 2018, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The Company does not have any fair value measurements on a recurring basis using significant unobservable inputs (Level 3) as of June 30, 2018 or December 31, 2017.

Credit facility and Senior Notes: The Company's unsecured credit facility did not have interest rates which were materially different than current market conditions and therefore, the fair value approximated the carrying value. The fair value of the Company's Senior Notes was estimated using Level 2 "significant other observable inputs," primarily based on quoted market prices for the same or similar issuances. At June 30, 2018, the fair value of the Senior Notes was approximately \$374.5 million.

Other debt instruments: The fair value of the Company's other debt instruments (including capital leases, lease financing obligations and mortgage notes payable) were estimated in the same manner as the unsecured credit facility above. Similarly, each of these instruments did not have interest rates which were materially different than current market conditions and therefore, the fair value of each instrument approximated the respective carrying values.

15. Subsequent Events

On July 6, 2018, the Company paid its regular quarterly cash dividend of \$0.41 per common share and per unit in the Operating Partnership to stockholders and unit holders of record as of the close of business on June 20, 2018.

On July 16, 2018, the Company paid a quarterly cash dividend of approximately \$0.45 per share on its 7.125% Series A Preferred Stock to holders of Series A Preferred Stock of record as of the close of business on June 29, 2018.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis presents the financial condition and results of operations of QTS Realty Trust, Inc., a Maryland corporation, ("QTS"), which includes the operations of QualityTech, LP (the "Operating Partnership"), for the three and six months ended June 30, 2018 and 2017. You should read the following discussion and analysis in conjunction with QTS' and the Operating Partnership's accompanying consolidated financial statements and related notes contained elsewhere in this Form 10-Q. We believe it is important for investors to understand the few differences between the financial statements of QTS and the Operating Partnership. See "Explanatory Note" for an explanation of these few differences. Since the financial data presented in this Item 2 does not contain any differences between QTS and the Operating Partnership, all periods presented reflect the operating results of both QTS and the Operating Partnership.

Forward-Looking Statements

Some of the statements contained in this Form 10-Q constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts. In particular, statements pertaining to our capital resources, portfolio performance, results of operations, anticipated growth in our funds from operations and anticipated market conditions contain forward-looking statements. In some cases, you can identify forward-looking statements by the use of forward-looking terminology such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," or "potential" or the negative of these and phrases or similar words or phrases which are predictions of or indicate future events or trends and which do not relate solely to historical matters. You also can identify forward-looking statements by discussions of strategy, plans or intentions.

The forward-looking statements contained in this Form 10-Q reflect our current views about future events and are subject to numerous known and unknown risks, uncertainties, assumptions and changes in circumstances that may cause our actual results to differ significantly from those expressed in any forward-looking statement. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). 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:

- adverse economic or real estate developments in our markets or the technology industry;
- obsolescence or reduction in marketability of our infrastructure due to changing industry demands;
- global, national and local economic conditions;

- our ability to successfully execute our strategic growth plan and realize its expected benefits;
- risks related to our international operations;
- difficulties in identifying properties to acquire and completing acquisitions;
- our failure to successfully develop, redevelop and operate acquired properties or lines of business;
- significant increases in construction and development costs;
- the increasingly competitive environment in which we operate;
- defaults on, or termination or non-renewal of, leases by customers;
- decreased rental rates or increased vacancy rates;
- increased interest rates and operating costs, including increased energy costs;

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- financing risks, including our failure to obtain necessary outside financing;
- dependence on third parties to provide Internet, telecommunications and network connectivity to our data centers;
- our failure to qualify and maintain QTS' qualification as a real estate investment trust ("REIT");
- environmental uncertainties and risks related to natural disasters;
- financial market fluctuations; and
- changes in real estate and zoning laws, revaluations for tax purposes and increases in real property tax rates.

While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. Any forward-looking statement speaks only as of the date on which it was made. We disclaim any obligation to publicly update or revise any forward-looking statement to reflect changes in underlying assumptions or factors, of new information, data or methods, future events or other changes. For a further discussion of these and other factors that could cause our future results to differ materially from any forward-looking statements, see the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 and Item 1A. "Risk Factors" of this Form 10-Q.

Overview

We are a leading provider of secure, compliant data center and managed services solutions. We refer to our primary data center products as Hyperscale and Hybrid Colocation. Our integrated technology platform provides flexible, scalable, secure IT solutions for web and IT applications.

On February 20, 2018, we announced a strategic growth plan to realign our product offerings around our hyperscale and hybrid colocation product offerings, along with technology and services from our cloud and managed services business that support hyperscale and hybrid colocation customers. As part of the strategic growth plan we are narrowing our focus around certain of our cloud and managed services offerings, including some colocation revenue attached to certain customers in the cloud and managed services business that we expect will not remain with the Company post-transition. Also in connection with the strategic growth plan, on April 24, 2018, we entered into definitive agreements with General Datatech, L.P. ("GDT"), an international provider of managed IT solutions, pursuant to which we agreed to assign to GDT certain assets, contracts and liabilities associated with our cloud and managed services products in exchange for, certain cash payments. These assets, contracts and liabilities primarily consist of

customer contracts and certain physical equipment. However, after August 31, 2018, we have no obligation to transfer any assets, contracts or liabilities that have not been transferred by such date, and we have not yet determined as of June 30, 2018 whether all of such assets, contracts or liabilities or only a portion thereof ultimately will be transferred. Under the agreements, we will provide support services to GDT, and GDT will expand its colocation presence within our facilities to support customers for the environments that reside in our facilities.

We operate a portfolio of 26 data centers located throughout the United States, Canada, Europe and Asia. Within the United States, we are located in some of the top U.S. data center markets plus other high-growth markets. Our data centers are highly specialized, full-service, mission-critical facilities used by our customers to house, power and cool the networking equipment and computer systems that support their most critical business processes. We believe that our data centers are best-in-class and engineered to adhere to the highest specifications commercially available to customers, providing fully redundant, high-density power and cooling sufficient to meet the needs of major national and international companies and organizations. This is in part reflected by our operating track record of “five-nines” (99.999%) reliability and by our diverse customer base, including financial institutions, healthcare companies, government agencies, communications service providers, software companies and global Internet companies.

We account for the operations of all of our properties in one reporting segment.

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As of June 30, 2018, QTS owned an approximate 88.5% ownership interest in the Operating Partnership. Substantially all of our assets are held by, and our operations are conducted through, the Operating Partnership.

The Operating Partnership is a Delaware limited partnership formed on August 5, 2009 and was QTS' historical predecessor prior to the initial public offering ("IPO"), having operated the Company's business until the IPO.

We believe that QTS has operated and has been organized in conformity with the requirements for qualification and taxation as a REIT commencing with our taxable year ended December 31, 2013. Our qualification as a REIT, and maintenance of such qualification, depends upon our ability to meet, on a continuing basis, various complex requirements under the Internal Revenue Code of 1986, as amended (the "Code") relating to, among other things, the sources of our gross income, the composition and values of our assets, our distributions to our stockholders and the concentration of ownership of our equity shares.

Our Customer Base

We provide data center solutions to a diverse set of customers. Our customer base is comprised of companies of all sizes representing an array of industries, each with unique and varied business models and needs. We serve Fortune 1000 companies as well as small and medium-sized businesses, or SMBs, including financial institutions, healthcare companies, government agencies, communications service providers, software companies and global Internet companies.

Our Hyperscale customers typically are large enterprises with significant IT expertise and specific IT requirements, including financial institutions and the world's largest global Internet companies. Our Hybrid Colocation customers consist of a wide range of organizations, including major healthcare, telecommunications, U.S. governmental agencies and software and web-based companies.

As a result of our diverse customer base, customer concentration in our portfolio is limited. As of June 30, 2018, only five of our customers individually accounted for more than 3% of our monthly recurring revenue ("MRR") (as defined below), with the largest customer accounting for approximately 12.1% of our MRR and the next largest customer accounting for only 5.0% of our MRR.

Our Portfolio

We develop and operate 26 data centers located throughout the United States, Canada, Europe and Asia, containing an aggregate of approximately 6.2 million gross square feet of space (approximately 94% of which is wholly owned by us), including approximately 2.7 million “basis-of-design” raised floor square feet, which represents the total data center raised floor potential of our existing data center facilities. This represents the maximum amount of space in our existing buildings that could be leased following full build-out, depending on the configuration that we deploy. We build out our data center facilities for both general use (colocation) and for executed leases that require significant amounts of space and power, depending on the needs of each facility at that time. As of June 30, 2018, this space included approximately 1,450,000 raised floor operating net rentable square feet, or NRSF, plus approximately 1.3 million square feet of additional raised floor in our development pipeline, of which approximately 67,000 NRSF is expected to become operational by December 31, 2018. Of the total 1.3 million NRSF in our development pipeline, approximately 84,000 square feet was related to customer leases which had been executed but not yet commenced. Our facilities collectively have access to approximately 674 megawatts (“MW”) of available utility power. We believe such access to power gives us a competitive advantage in redeveloping data center space, since access to power is usually the most limiting and expensive component in data center redevelopment.

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The following table presents an overview of the portfolio of operating properties that we own or lease, based on information as of June 30, 2018:

Net Rentable Square Feet (Operating NRSF) (3)										Available	Basis of	C
Gross										Utility	Design	R
Year	Square	Raised	Office &	Supporting		%	Annualized	Power	("BOD")			F
Acquired	Feet (2)	Floor (4)	Other	Infrastructure	Total	Occupied	Rent (8)	(MW) (9)	NRSF			a
(1)			(5)	(6)		(7)						%
												B
2010	1,318,353	167,309	51,093	178,854	397,256	73.4 %	\$ 39,045,805	110	557,309	3		
2006	968,695	463,986	36,953	336,266	837,205	97.7 %	\$ 97,058,198	72	527,186	8		
2013	698,000	168,160	6,981	170,323	345,464	97.6 %	\$ 48,812,282	140	275,701	6		
2014	553,930	58,157	2,229	111,405	171,791	100.0 %	\$ 10,035,602	22	158,157	3		
2014	474,979	33,000	—	35,102	68,102	78.9 %	\$ 10,089,145	8	215,855	1		
2017	445,000	14,230	—	23,240	37,470	100.0 %	\$ 2,139,300	50	178,000	8		
2018	118,031	—	—	—	—	— %	\$ —	24	66,324	—		
2005	369,822	205,608	8,697	107,128	321,433	91.6 %	\$ 54,920,597	36	205,608	1		
2016	360,000	88,820	14,311	91,851	194,982	87.5 %	\$ 14,695,135	111	176,000	5		
2016	261,836	10,600	—	19,438	30,038	100.0 %	\$ 2,078,486	50	80,000	1		
2007	135,322	55,905	944	45,094	101,943	73.7 %	\$ 18,287,837	11	80,940	6		
2012	92,644	54,595	2,794	23,916	81,305	46.1 %	\$ 11,759,681	8	54,595	1		
2017	87,159	30,545	5,997	32,892	69,434	59.9 %	\$ 25,251,802	13	48,270	6		
2006 &												
2015	206,631	76,451	19,450	42,001	137,902	79.5 %	\$ 32,963,454	14	97,692	7		
Misc.	147,435	22,380	49,337	30,074	101,791	68.8 %	\$ 6,675,938	5	22,380	1		
	6,237,837	1,449,746	198,786	1,247,584	2,896,116	89.2 %	\$ 373,813,262	674	2,744,017	5		

- (1) Represents the year a property was acquired or, in the case of a property under lease, the year our initial lease commenced for the property.
- (2) With respect to our owned properties, gross square feet represents the entire building area. With respect to leased properties, gross square feet represents that portion of the gross square feet subject to our lease. Gross square feet includes 347,261 square feet of our office and support space, which is not included in operating NRSF.
- (3) Represents the total square feet of a building that is currently leased or available for lease plus developed supporting infrastructure, based on engineering drawings and estimates, but does not include space held for redevelopment or space used for our own office space.

- (4) Represents management's estimate of the portion of NRSF of the facility with available power and cooling capacity that is currently leased or readily available to be leased to customers as data center space based on engineering drawings.
- (5) Represents the operating NRSF of the facility other than data center space (typically office and storage space) that is currently leased or available to be leased.
- (6) Represents required data center support space, including mechanical, telecommunications and utility rooms, as well as building common areas.
- (7) Calculated as data center raised floor that is subject to a signed lease for which space is occupied (1,041,205 square feet as of June 30, 2018) divided by leasable raised floor based on the current configuration of the properties (1,166,936 square feet as of June 30, 2018), expressed as a percentage.
- (8) We define annualized rent as MRR multiplied by 12. We calculate MRR as monthly contractual revenue under executed contracts as of a particular date, which includes revenue from our rental and cloud and managed services activities, but excludes customer recoveries, deferred set-up fees, variable related revenues, non-cash revenues and other one-time revenues. MRR does not include the impact from booked-not-billed contracts as of a particular date, unless otherwise specifically noted, nor does it reflect the accounting associated with any free rent, rent abatements or future scheduled rent increases.
- (9) Represents installed utility power and transformation capacity that is available for use by the facility as of June 30, 2018.

* Subject to long term ground lease.

** Includes 11 facilities. All facilities are leased, including those subject to capital leases.

*** Consists of Miami, FL; Lenexa, KS; Overland Park, KS; and Duluth, GA facilities.

Key Operating Metrics

The following sets forth definitions for our key operating metrics. These metrics may differ from similar definitions used by other companies.

Monthly Recurring Revenue ("MRR"). We calculate MRR as monthly contractual revenue under signed leases as of a particular date, which includes revenue from our rental and cloud and managed services activities, but excludes customer recoveries, deferred set-up fees, variable related revenues, non-cash revenues and other one-time revenues. MRR does not include the impact from booked-not-billed contracts as of a particular date, unless otherwise specifically noted, nor does it reflect the accounting associated with any free rent, rent abatements or future scheduled rent increases.

Annualized Rent. We define annualized rent as MRR multiplied by 12.

Rental Churn. We define rental churn as the MRR lost in the period due to a customer intending to fully exit the QTS platform in the near term compared to total MRR at the beginning of the period.

Leasable Raised Floor. We define leasable raised floor as the amount of raised floor square footage that we have leased plus the available capacity of raised floor square footage that is in a leasable format as of a particular date and according to a particular product configuration. The amount of our leasable raised floor may change even without completion of new redevelopment projects due to changes in our configuration of product space.

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Percentage (%) Occupied and Billing. We define percentage occupied and billing as the raised floor square footage that is subject to a signed lease for which billing has commenced as of a particular date compared to leasable raised floor based on the current configuration of the properties as of that date, expressed as a percentage.

Booked-not-Billed. We define booked-not-billed as our customer leases that have been signed, but for which lease payments have not yet commenced.

Factors That May Influence Future Results of Operations and Cash Flows

Revenue. Our revenue growth will depend on our ability to maintain the historical occupancy rates of leasable raised floor, lease currently available space, lease new capacity that becomes available as a result of our development and redevelopment activities, attract new customers and continue to meet the ongoing technological requirements of our customers. As of June 30, 2018, we had in place customer leases generating revenue for approximately 89% of our leasable raised floor. Our ability to grow revenue also will be affected by our ability to maintain or increase rental and certain cloud and managed services rates at our properties. Future economic downturns, regional downturns or downturns in the technology industry could impair our ability to attract new customers or renew existing customers' leases on favorable terms, or at all, and could adversely affect our customers' ability to meet their obligations to us. Negative trends in one or more of these factors could adversely affect our revenue in future periods, which would impact our results of operations and cash flows. We also at times may elect to reclaim space from customers in a negotiated transaction where we believe that we can redevelop and/or re-lease that space at higher rates, which may cause a decrease in revenue until the space is re-leased.

Strategic Growth Plan. Our ability to successfully realign our product offerings around hyperscale and hybrid colocation as well as transition certain assets, contracts and liabilities associated with our cloud and managed services products to GDT may influence our future results of operations and cash flows. We expect a reduction in cloud and managed services revenue as we transition certain customers to GDT over the course of 2018. In addition, we will incur certain restructuring charges associated with the strategic growth plan, of which approximately \$11.4 million and \$20.0 million were incurred during the three and six months ended June 30, 2018, respectively.

Leasing Arrangements. As of June 30, 2018, 41% of our MRR came from customers which individually occupied greater than or equal to 6,600 square feet of space (or approximately 1 MW of power), with the remaining 59% attributable to customers utilizing less than 6,600 square feet of space. As of June 30, 2018, approximately 49% of our MRR was attributable to the metered power model, the majority of which is comprised of customers that individually occupy greater than 6,600 square feet of space. Under the metered power model, the customer pays us a fixed monthly rent amount, plus reimbursement of certain other operating costs, including actual costs of sub-metered electricity used to power its data center equipment and an estimate of costs for electricity used to power supporting infrastructure for the data center, expressed as a factor of the customer's actual electricity usage. Fluctuations in our customers' utilization of power and the supplier pricing of power do not significantly impact our results of operations or cash flows under the metered power model. These leases generally have a minimum term of five years. As of June 30,

2018, the remaining approximately 51% of our MRR was attributable to the gross lease or managed service model. Under this model, the customer pays us a fixed amount on a monthly basis, and does not separately reimburse us for operating costs, including utilities, maintenance, repair, property taxes and insurance, as reimbursement for these costs is factored into MRR. However, if customers incur more utility costs than their leases permit, we are able to charge these customers for overages. For leases under the gross lease or managed service model, fluctuations in our customers' utilization of power and the prices our utility providers charge us will impact our results of operations and cash flows. These leases generally have a term of three years or less.

Scheduled Lease Expirations. Our ability to minimize rental churn and customer downgrades at renewal and to renew, lease and re-lease expiring space will impact our results of operations and cash flows. Leases which have commenced billing representing approximately 28% and 13% of our total leased raised floor are scheduled to expire during the years ending December 31, 2018 (including all month-to-month leases) and 2019, respectively. These leases also represented approximately 25% and 24%, respectively, of our annualized rent as of June 30, 2018. Given that our average rent for larger contracts tend to be at or below market rent at expiration, as a general matter, based on current market conditions, we expect that expiring rents will be at or below the then-current market rents.

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Acquisitions, Development and Financing. Our revenue growth also will depend on our ability to acquire and redevelop and/or construct and subsequently lease data center space at favorable rates. We generally fund the cost of data center acquisition, construction and/or redevelopment from our net cash provided by operations, revolving credit facility, other unsecured and secured borrowings or the issuance of additional equity. We believe that we have sufficient access to capital from our current cash and cash equivalents, and borrowings under our credit facility to fund our redevelopment projects.

Operating Expenses. Our operating expenses generally consist of direct personnel costs, utilities, property and ad valorem taxes, insurance and site maintenance costs and rental expenses on our ground and building leases. In particular, our buildings require significant power to support the data center operations conducted in them. Although substantially all of our long-term leases - leases with a term greater than three years - contain reimbursements for certain operating expenses, we will not in all instances be reimbursed for all of the property operating expenses we incur. We also incur general and administrative expenses, including expenses relating to senior management, our in-house sales and marketing organization, cloud and managed services support personnel and legal, human resources, accounting and other expenses related to professional services. We also incur additional expenses arising from being a publicly traded company, including employee equity-based compensation. Increases or decreases in our operating expenses will impact our results of operations and cash flows. We expect to incur additional operating expenses as we continue to expand.

General Leasing Activity

As disclosed above, our results may be impacted by the outcome of the strategic growth plan as we continue to transition assets, contracts and liabilities associated with our cloud and managed services products to GDT. The general leasing statistics below are presented on a consolidated basis and include the effects of the strategic growth plan incurred to date.

During the three and six months ended June 30, 2018, we entered into customer leases representing approximately \$0.8 million and \$2.2 million of incremental MRR, net of downgrades (and representing approximately \$9.4 million and \$26.1 million of incremental annualized rent, net of downgrades) at \$831 and \$539 per square foot, respectively. In addition, \$7.2 million and \$12.5 million of leasing commissions was associated with new and renewal leasing activity for the three and six months ended June 30, 2018.

During the three and six months ended June 30, 2018, we renewed leases with a total annualized rent of \$22.6 million and \$46.6 million at an average rent per square foot of \$222 and \$231, respectively, which was 4.9% and 5.1% higher than the annualized rent prior to their respective renewals. We define renewals as leases where the customer retains the same amount of space before and after renewal, which facilitates rate comparability. Customers that renew with adjustments to square feet are reflected in the net leasing activity discussed above. The rental churn rate for the three and six months ended June 30, 2018 was 1.8% and 3.5%, respectively.

During the three and six months ended June 30, 2018, we commenced customer leases representing approximately \$2.6 million and \$5.9 million of MRR (and representing approximately \$30.8 million and \$70.3 million of annualized rent) at \$637 and \$666 per square foot, respectively.

As of June 30, 2018, our booked-not-billed MRR balance (which represents customer leases that have been executed, but for which lease payments have not commenced as of June 30, 2018) was approximately \$4.4 million, or \$53.3 million of annualized rent. The booked-not-billed balance is expected to contribute an incremental \$5.9 million to revenue in 2018 (representing \$18.1 million in annualized revenues), an incremental \$15.8 million in 2019 (representing \$20.7 million in annualized revenues) and an incremental \$14.5 million in annualized revenues thereafter.

We estimate the remaining capital cost to provide the space, power, connectivity and other services to the customer contracts which had been booked but not billed as of June 30, 2018 to be approximately \$122 million. This estimate generally includes customers with newly contracted space of more than 3,300 square feet. The space, power, connectivity and other services provided to customers that contract for smaller amounts of space is generally provided by existing space which was previously developed.

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Results of Operations

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Changes in revenues and expenses for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 are summarized below (unaudited and in thousands):

	Three Months Ended June 30,				
	2018	2017	\$ Change	% Change	
Revenues:					
Rental	\$ 89,232	\$ 80,793	\$ 8,439	10	%
Recoveries from customers	10,444	8,774	1,670	19	%
Cloud and managed services	10,974	16,856	(5,882)	(35)	%
Other	1,627	1,445	182	13	%
Total revenues	112,277	107,868	4,409	4	%
Operating expenses:					
Property operating costs	36,558	36,846	(288)	(1)	%
Real estate taxes and insurance	2,903	2,946	(43)	(1)	%
Depreciation and amortization	37,820	34,527	3,293	10	%
General and administrative	21,031	22,562	(1,531)	(7)	%
Transaction, integration and impairment costs	653	161	492	306	%
Restructuring	11,430	—	11,430	*	%
Total operating expenses	110,395	97,042	13,353	14	%
Operating income	1,882	10,826	(8,944)	(83)	%
Other income and expense:					
Interest income	25	—	25	*	%
Interest expense	(8,203)	(7,647)	556	(7)	%
Income (loss) before taxes	(6,296)	3,179	(9,475)	(298)	%
Tax benefit (expense) of taxable REIT subsidiaries	(137)	1,429	(1,566)	(110)	%
Net income (loss)	(6,433)	4,608	(11,041)	(240)	%
Net (income) loss attributable to noncontrolling interests	1,002	(568)	1,570	(276)	%
Net income (loss) attributable to QTS Realty Trust, Inc.	\$ (5,431)	\$ 4,040	\$ (9,471)	(234)	%
Preferred stock dividends	(2,248)	—	(2,248)	*	%
Net income (loss) attributable to common stockholders	\$ (7,679)	\$ 4,040	\$ (11,719)	(290)	%

*not applicable for comparison

Revenues. Total revenues for the three months ended June 30, 2018 were \$112.3 million compared to \$107.9 million for the three months ended June 30, 2017. The increase of \$4.4 million, or 4%, was largely attributable to organic growth in our customer base as well as retention of a portion of colocation customers that were previously believed to be at risk of churning due to disruption caused by the strategic growth plan. As the integration with GDT has progressed with minimal disruption, we are seeing less colocation revenue impact than we had originally anticipated, and this has led to additional benefit to the company revenue growth in 2018.

The increase of \$2.6 million, or 3%, in combined rental and cloud and managed services revenue was primarily attributable to rents from newly leased space from ongoing expansions in our Irving, Chicago and Atlanta-Metro data

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centers as well as increases in revenue from previously leased space, primarily in our Ashburn data center, or service contracts, net of downgrades at renewal and rental churn. The decrease in cloud and managed service revenue was primarily due to reductions in revenue from existing customers' churn and downgrades, combined with a reduction in revenue associated with certain cloud and managed services customer contracts that have been transitioned to GDT in connection with the aforementioned strategic growth plan.

As of June 30, 2018, our data centers were approximately 89% occupied based on leasable raised floor of approximately 1,167,000 square feet, with approximately 1,041,000 square feet occupied, with an average annualized rent of \$359 per leased raised floor square foot including cloud and managed services revenue. As of June 30, 2017, our data centers were 87% occupied and billing based on leasable raised floor of approximately 1,113,000 square feet, with approximately 968,000 square feet occupied and paying rent, with an average annualized rent of \$393 per leased raised floor square foot including cloud and managed services revenue.

Higher recoveries from customers for the three months ended June 30, 2018 compared to the three months ended June 30, 2017 were primarily due to increased utility usage at our Atlanta-Metro, Irving, Atlanta-Suwanee and Piscataway data centers. The increase in other revenue was primarily due to higher straight line rent, offset by a lower level of scrap metal sales.

Property Operating Costs. Property operating costs for the three months ended June 30, 2018 were \$36.6 million compared to property operating costs of \$36.8 million for the three months ended June 30, 2017, a decrease of \$0.3 million, or 1%. The breakdown of our property operating costs is summarized in the table below (unaudited and in thousands):

	Three Months Ended June 30,				
	2018	2017	\$ Change	% Change	
Property operating costs:					
Direct payroll	\$ 5,413	\$ 5,797	\$ (384)	(7)	%
Rent	3,317	3,916	(599)	(15)	%
Repairs and maintenance	3,830	3,623	207	6	%
Utilities	13,492	11,495	1,997	17	%
Management fee allocation	5,298	5,258	40	1	%
Other	5,208	6,757	(1,549)	(23)	%
Total property operating costs	\$ 36,558	\$ 36,846	\$ (288)	(1)	%

The decrease in total property operating costs was attributable to aggregate expense reductions of \$2.5 million primarily related to our transition from our cloud and managed services offerings associated with our strategic growth plan, with expense reductions primarily in rent expense from exiting certain leased facilities, direct payroll expenses, and other costs such as communications services and bad debt expense. Offsetting these decreases were expense

increases aggregating to \$2.2 million, primarily related to \$2.0 million of increased utilities expense associated with increased power usage related to growth in our Hyperscale offering as well as \$0.2 million related to increased repairs and maintenance expense which tends to fluctuate from period to period and increase with the expansion and lease-up of our facilities.

Real Estate Taxes and Insurance. Real estate taxes and insurance remained consistent at \$2.9 million for both the three months ended June 30, 2018 and 2017.

Depreciation and Amortization. Depreciation and amortization for the three months ended June 30, 2018 was \$37.8 million compared to \$34.5 million for the three months ended June 30, 2017. The increase of \$3.3 million, or 10%, was due to additional depreciation expense of \$2.6 million primarily relating to an increase in assets placed in service at our Irving and Atlanta-Metro data centers as well as higher amortization expense of \$0.7 million primarily related to a higher level of leasing commissions.

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General and Administrative Expenses. General and administrative expenses were \$21.0 million for the three months ended June 30, 2018 compared to general and administrative expenses of \$22.6 million for the three months ended June 30, 2017. The decrease of \$1.5 million, or 7%, was primarily attributable to the implementation of the aforementioned strategic growth plan, resulting in a decrease in net payroll expenses, excluding equity-based compensation expense, of \$1.0 million, reduced advertising and marketing expenses of \$0.4 million, lower travel expenses of \$0.3 million, lower professional fees of \$0.2 million and lower corporate repairs and maintenance expense of \$0.2 million. Offsetting these decreases was higher equity-based compensation expense of \$0.3 million and higher outside services expenses primarily related to consulting services of \$0.3 million.

Transaction, Integration and Impairment Costs. For the three months ended June 30, 2018, we incurred \$0.7 million in transaction, integration and impairment costs compared to \$0.2 million for the three months ended June 30, 2017. Both current period and prior period costs were primarily related to the assessment of actual and potential acquisitions. Acquisition-related costs for acquisitions accounted for as a business combination in accordance with ASC 805, Business Combinations, are expensed in the periods in which the costs are incurred and the services are received.

Restructuring Costs. Restructuring costs, which are costs associated with our strategic growth plan, were \$11.4 million for the three months ended June 30, 2018, primarily related to employee severance expenses, professional fees, acceleration of equity-based compensation awards and the sale or write-off of certain product-related assets. No such costs were incurred during the three months ended June 30, 2017.

Interest Expense. Interest expense was \$8.2 million and \$7.6 million for the three months ended June 30, 2018 and 2017, respectively. The increase of \$0.6 million, or 7%, was due primarily to an increase in the average debt balance of \$179.6 million associated with increased funding required for capital projects, partially offset by the issuance of common and preferred stock and higher capitalized interest during the current period due to the growth in construction projects. The average debt balance, exclusive of debt issuance costs, for the three months ended June 30, 2018 was \$1,257.8 million, with a weighted average interest rate, including the effect of amortization of deferred financing costs and interest rate swaps, of 4.52%. This compared to an average debt balance, exclusive of debt issuance costs, of \$1,078.2 million for the three months ended June 30, 2017, with a weighted average interest rate, including the effect of amortization of deferred financing costs, of 4.01%. Interest capitalized in connection with our development activities during the three months ended June 30, 2018 and 2017 was \$6.0 million and \$3.2 million, respectively.

Tax Expense/Benefit of Taxable REIT Subsidiaries. The tax expense of our taxable REIT subsidiaries for the three months ended June 30, 2018 was \$0.1 million compared to a \$1.4 million tax benefit for the three months ended June 30, 2017. The change from a tax benefit for the three months ended June 30, 2017 to a tax expense for the three months ended June 30, 2018 was primarily attributable to the determination that the forecasted 2018 annual activity will drive the taxable REIT subsidiaries into a net deferred asset position by the end of 2018. As a result, QTS has determined that a federal and state valuation allowance will more-likely-than-not be necessary during the balance of 2018. The impact of an anticipated valuation allowance is reflected in the estimated annual effective tax rate for the three months ended June 30, 2018.

Net Income. A summary of the components of the decrease in net income of \$11.0 million for the three months ended June 30, 2018 as compared to the three months ended June 30, 2017 is as follows (unaudited and in millions):

	\$ Change
Increase in revenues, net of property operating costs, real estate taxes and insurance	\$ 4.7
Decrease in general and administrative expense	1.5
Increase in transaction, integration and impairment costs	(0.4)
Increase in interest expense net of interest income	(0.5)
Increase in depreciation and amortization	(3.3)
Increase in tax expense	(1.6)
Increase in restructuring charges	(11.4)
Decrease in net income	\$ (11.0)

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Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Changes in revenues and expenses for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 are summarized below (unaudited and in thousands):

	Six Months Ended June 30,				
	2018	2017	\$ Change	% Change	
Revenues:					
Rental	\$ 174,945	\$ 159,910	\$ 15,035	9	%
Recoveries from customers	21,957	17,135	4,822	28	%
Cloud and managed services	24,155	33,821	(9,666)	(29)	%
Other	4,917	2,966	1,951	66	%
Total revenues	225,974	213,832	12,142	6	%
Operating expenses:					
Property operating costs	74,298	72,267	2,031	3	%
Real estate taxes and insurance	5,808	6,093	(285)	(5)	%
Depreciation and amortization	73,733	68,475	5,258	8	%
General and administrative	43,265	44,759	(1,494)	(3)	%
Transaction, integration and impairment costs	1,573	497	1,076	216	%
Restructuring	19,960	—	19,960	*	%
Total operating expenses	218,637	192,091	26,546	14	%
Operating income	7,337	21,741	(14,404)	(66)	%
Other income and expense:					
Interest income	26	1	25	2500	%
Interest expense	(16,313)	(14,516)	1,797	(12)	%
Income (loss) before taxes	(8,950)	7,226	(16,176)	(224)	%
Tax benefit of taxable REIT subsidiaries	2,265	2,950	(685)	(23)	%
Net income (loss)	(6,685)	10,176	(16,861)	(166)	%
Net (income) loss attributable to noncontrolling interests	1,031	(1,259)	2,290	(182)	%
Net income (loss) attributable to QTS Realty Trust, Inc.	\$ (5,654)	\$ 8,917	\$ (14,571)	(163)	%
Preferred stock dividends	(2,576)	—	(2,576)	*	%
Net income (loss) attributable to common stockholders	\$ (8,230)	\$ 8,917	\$ (17,147)	(192)	%

*not applicable for comparison

Revenues. Total revenues for the six months ended June 30, 2018 were \$226.0 million compared to \$213.8 million for the six months ended June 30, 2017. The increase of \$12.1 million, or 6%, was largely attributable to organic growth in our customer base and placing additional square footage into service in conjunction with the development and expansion of our Irving, Atlanta-Metro and Chicago data centers as well as retention of a portion of colocation customers that were previously believed to be at risk of churning due to disruption caused by the strategic growth plan. As the integration with GDT has progressed with minimal disruption, we are seeing less colocation revenue impact than we had originally anticipated, and this has led to additional benefit to the company revenue growth in 2018.

The increase of \$5.4 million, or 3%, in combined rental and cloud and managed services revenue was primarily attributable to rents from newly leased space from ongoing expansions in our Irving, Chicago and Atlanta-Metro data centers as well as increases in rents from previously leased space, net of downgrades at renewal and rental churn. The

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decrease in cloud and managed service revenue was primarily due to reductions in revenue from existing customers' churn and downgrades, combined with a reduction in revenue associated with certain cloud and managed services customer contracts that have been transitioned to GDT in connection with the aforementioned strategic growth plan.

Higher recoveries from customers for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 were primarily due to increased utility costs generally related to an increase in utility usage at our Irving, Atlanta-Suwanee, Piscataway and Chicago data centers and an increase in utility rates and usage at the Atlanta-Metro data center. The \$2.0 million increase in other revenue for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 was primarily due to higher straight line rent.

Property Operating Costs. Property operating costs for the six months ended June 30, 2018 were \$74.3 million compared to property operating costs of \$72.3 million for the six months ended June 30, 2017, an increase of \$2.0 million, or 3%. The breakdown of our property operating costs is summarized in the table below (unaudited and in thousands):

	Six Months Ended June 30,				
	2018	2017	\$ Change	% Change	
Property operating costs:					
Direct payroll	\$ 11,178	\$ 11,541	\$ (363)	(3)	%
Rent	6,928	7,873	(945)	(12)	%
Repairs and maintenance	7,957	8,107	(150)	(2)	%
Utilities	27,965	22,445	5,520	25	%
Management fee allocation	10,553	10,484	69	1	%
Other	9,717	11,817	(2,100)	(18)	%
Total property operating costs	\$ 74,298	\$ 72,267	\$ 2,031	3	%

The increase in total property operating costs was primarily attributable to increased utilities expense of \$5.5 million associated with increased power usage related to growth in our Hyperscale offering as well as increased management fee allocation of \$0.1 million. Management fee allocation for our leased facilities acquired in 2015 is based on 10% of cash rental revenues for each facility and reflects an allocation of internal charges to cover back-office and service-related costs associated with the day-to-day operations of our data center facilities, with a corresponding offset to general and administrative expenses. Management fee allocation for our other facilities is based on 4% of cash rental revenues for each facility. Offsetting this increase was expense reductions aggregating to \$3.6 million, primarily related to our transition from our cloud and managed services offerings associated with our strategic growth plan, with expense reductions primarily in rent expense from exiting certain leased facilities, direct payroll expenses, repairs and maintenance expense, and other costs such as communications services and bad debt expense.

Real Estate Taxes and Insurance. Real estate taxes and insurance for the six months ended June 30, 2018 were \$5.8 million compared to \$6.1 million for the six months ended June 30, 2017. The decrease of \$0.3 million, or 5%, was primarily attributable to a higher level of capitalized real estate taxes at our Fort Worth facility.

Depreciation and Amortization. Depreciation and amortization for the six months ended June 30, 2018 was \$73.7 million compared to \$68.5 million for the six months ended June 30, 2017. The increase of \$5.3 million, or 8%, was due to additional depreciation expense of \$4.4 million primarily relating to increase in assets placed in service at our Irving, Chicago, and Atlanta-Metro data centers as well as higher amortization expense of \$0.8 million primarily related to a higher level of leasing commissions.

General and Administrative Expenses. General and administrative expenses were \$43.3 million for six months ended June 30, 2018 compared to general and administrative expenses of \$44.8 million for the six months ended June 30, 2017, a decrease of \$1.5 million, or 3%. The decrease was primarily attributable to the aforementioned strategic growth plan, resulting in a decrease in net payroll expenses, excluding equity-based compensation expense, of \$1.1 million, lower professional fees of \$0.6 million, reduced advertising and marketing expenses of \$0.5 million, lower corporate repairs

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and maintenance expense of \$0.3 million and lower corporate rent expense of \$0.2 million. Offsetting these decreases was higher equity-based compensation expense of \$0.7 million and higher software license expenses of \$0.5 million.

Transaction, Integration and Impairment Costs. For the six months ended June 30, 2018, we incurred \$1.6 million in transaction, integration and impairment costs compared to \$0.5 million for the six months ended June 30, 2017. The current period costs incurred were primarily related to the assessment of actual and potential acquisitions. In the prior period, \$0.3 million in costs were attributable to various activities related to the integration of the Piscataway and Fort Worth facilities acquired in 2016, with the remaining \$0.2 million primarily related to transaction costs incurred in the examination of actual and potential acquisitions. Acquisition-related costs for acquisitions accounted for as a business combination in accordance with ASC 805, Business Combinations, are expensed in the periods in which the costs are incurred and the services are received.

Restructuring Costs. Restructuring costs, which are costs associated with our strategic growth plan, were \$20.0 million for the six months ended June 30, 2018, primarily related to employee severance expenses, professional fees, acceleration of equity-based compensation awards and the sale or write-off of certain product-related assets. No such costs were incurred during the six months ended June 30, 2017.

Interest Expense. Interest expense for the six months ended June 30, 2018 was \$16.3 million compared to \$14.5 million for the six months ended June 30, 2017. The increase of \$1.8 million, or 12%, was due primarily to an increase in the average debt balance of \$219.7 million, primarily associated with increased funding required for capital projects, partially offset by the issuance of common and preferred stock and higher capitalized interest during the current period due to the growth in construction projects. The average debt balance, exclusive of debt issuance costs, for the six months ended June 30, 2018 was \$1,272.1 million, with a weighted average interest rate, including the effect of amortization of deferred financing costs and interest rate swaps, of 4.35%. This compared to an average debt balance of \$1,052.3 million for the six months ended June 30, 2017, with a weighted average interest rate, including the effect of amortization of deferred financing costs, of 3.95%. Interest capitalized in connection with our development activities during the six months ended June 30, 2018 and 2017 was \$11.4 million and \$6.3 million, respectively.

Tax Benefit of Taxable REIT Subsidiaries. Tax benefit of our taxable REIT subsidiaries for the six months ended June 30, 2018 was \$2.3 million compared to \$3.0 million for the six months ended June 30, 2017. This change was driven by the expectation that a federal and state valuation allowance will more-likely-than-not be necessary during the balance of 2018. That expectation is reflected in the estimated annual effective tax rate for six months ended June 30, 2018, resulting in a reduced tax benefit being recognized compared to the six months ended June 30, 2017.

Net Income. A summary of the components of the decrease in net income of \$16.9 million for the six months ended June 30, 2018 as compared to the six months ended June 30, 2017 is as follows (unaudited and in millions):

	\$ Change
Increase in revenues, net of property operating costs, real estate taxes and insurance	\$ 10.4
Decrease in general and administrative expense	1.5
Decrease in tax benefit	(0.7)
Increase in transaction, integration and other costs	(1.1)
Increase in interest expense net of interest income	(1.8)
Increase in depreciation and amortization	(5.2)
Increase in restructuring charges	(20.0)
Decrease in net income	\$ (16.9)

Non-GAAP Financial Measures

We consider the following non-GAAP financial measures to be useful to investors as key supplemental measures of our performance: (1) FFO; (2) Operating FFO; (3) Adjusted Operating FFO; (4) MRR; (5) NOI; (6) EBITDAre; and (7) Adjusted EBITDA. These non-GAAP financial measures should be considered along with, but not as alternatives to, net income or loss and cash flows from operating activities as a measure of our operating performance. FFO, Operating FFO, Adjusted Operating FFO, MRR, NOI, EBITDAre and Adjusted EBITDA, as calculated by us, may not be

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comparable to FFO, Operating FFO, Adjusted Operating FFO, MRR, NOI, EBITDA and Adjusted EBITDA as reported by other companies that do not use the same definition or implementation guidelines or interpret the standards differently from us.

We do not, nor do we suggest investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, GAAP financial information. We believe the presentation of non-GAAP financial measures provide meaningful supplemental information to both management and investors that is indicative of our operations. We have included a reconciliation of this additional information to the most comparable GAAP measure in the selected financial information below.

FFO, Operating FFO and Adjusted Operating FFO

We consider funds from operations (“FFO”) to be a supplemental measure of our performance which should be considered along with, but not as an alternative to, net income (loss) and cash provided by operating activities as a measure of operating performance. 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), adjusted to exclude gains (or losses) from sales of property, real estate-related depreciation and amortization and similar 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.

Due to the volatility and nature of certain significant charges and gains recorded in our operating results that management believes are not reflective of our core operating performance, management computes an adjusted measure of FFO, which we refer to as Operating FFO. Operating FFO is a non-GAAP measure that is used as a supplemental operating measure and to provide additional information to users of the financial statements. We generally calculate Operating FFO as FFO excluding certain non-routine charges and gains and losses that management believes are not indicative of the results of our operating real estate portfolio. We believe that Operating FFO provides investors with another financial measure that may facilitate comparisons of operating performance between periods and, to the extent they calculate Operating FFO on a comparable basis, between REITs.

Adjusted Operating Funds From Operations (“Adjusted Operating FFO”) is a non-GAAP measure that is used as a supplemental operating measure and to provide additional information to users of the financial statements. We calculate Adjusted Operating FFO by adding or subtracting from Operating FFO items such as: maintenance capital investment, paid leasing commissions, amortization of deferred financing costs and bond discount, non-real estate depreciation, straight line rent adjustments, deferred taxes and non-cash compensation.

We offer these measures because we recognize that FFO, Operating FFO and Adjusted Operating FFO will be used by investors as a basis to compare our operating performance with that of other REITs. However, because FFO, Operating FFO and Adjusted Operating FFO exclude real estate depreciation and amortization and capture 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, cash flows and results of operations, the utility of FFO, Operating FFO and Adjusted Operating FFO as measures of our operating performance is limited. Our calculation of FFO may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO or do not calculate FFO in accordance with NAREIT guidance. In addition, our calculations of FFO, Operating FFO and Adjusted Operating FFO are not necessarily comparable to FFO, Operating FFO and Adjusted Operating FFO as calculated by other REITs that do not use the same definition or implementation guidelines or interpret the standards differently from us. FFO, Operating FFO and Adjusted Operating FFO are non-GAAP measures and should not be considered a measure of our results of operations or liquidity or as a substitute for, or an alternative to, net income (loss), 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 make distributions to our stockholders.

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A reconciliation of net income (loss) to FFO, Operating FFO and Adjusted Operating FFO is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
FFO				
Net income (loss)	\$ (6,433)	\$ 4,608	\$ (6,685)	\$ 10,176
Real estate depreciation and amortization	33,843	30,275	65,900	59,779
FFO	27,410	34,883	59,215	69,955
Preferred stock dividends	(2,248)	—	(2,576)	—
FFO available to common stockholders & OP unit holders	25,162	34,883	56,639	69,955
Restructuring costs	11,430	—	19,960	—
Transaction, integration and impairment costs	653	161	1,573	497
Tax expense (benefit) associated with restructuring, transaction and integration costs	(41)	—	(1,676)	—
Operating FFO available to common stockholders & OP unit holders	37,204	35,044	76,496	70,452
Maintenance Capex	(2,612)	(1,172)	(3,542)	(1,968)
Leasing commissions paid	(7,671)	(4,055)	(13,581)	(8,224)
Amortization of deferred financing costs and bond discount	961	971	1,923	1,951
Non real estate depreciation and amortization	3,976	4,254	7,833	8,697
Straight line rent revenue and expense and other	(1,233)	(637)	(3,751)	(1,764)
Tax expense (benefit) from operating results	178	(1,429)	(589)	(2,950)
Equity-based compensation expense	3,999	3,732	7,480	6,814
Adjusted Operating FFO available to common stockholders & OP unit holders	\$ 34,802	\$ 36,708	\$ 72,269	\$ 73,008

Monthly Recurring Revenue (MRR) and Recognized MRR

We calculate MRR as monthly contractual revenue under signed leases as of a particular date, which includes revenue from our rental and cloud and managed services activities, but excludes customer recoveries, deferred set-up fees, variable related revenues, non-cash revenues and other one-time revenues. MRR does not include the impact from booked-not-billed leases as of a particular date, unless otherwise specifically noted.

Separately, we calculate recognized MRR as the recurring revenue recognized during a given period, which includes revenue from our rental and cloud and managed services activities, but excludes customer recoveries, deferred set-up fees, variable related revenues, non-cash revenues and other one-time revenues.

Management uses MRR and recognized MRR as supplemental performance measures because they provide useful measures of increases in contractual revenue from our customer leases. MRR and recognized MRR should not be viewed by investors as alternatives to actual monthly revenue, as determined in accordance with GAAP. Other companies may not calculate MRR or recognized MRR in the same manner. Accordingly, our MRR and recognized MRR may not be comparable to other companies' MRR and recognized MRR. MRR and recognized MRR should be considered only as supplements to total revenues as a measure of our performance. MRR and recognized MRR should not be used as measures of our results of operations or liquidity, nor is it indicative of funds available to meet our cash needs, including our ability to make distributions to our stockholders.

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A reconciliation of total GAAP revenues to recognized MRR in the period and MRR at period end is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Recognized MRR in the period				
Total period revenues (GAAP basis)	\$ 112,277	\$ 107,868	\$ 225,974	\$ 213,832
Less: Total period recoveries	(10,444)	(8,774)	(21,957)	(17,135)
Total period deferred setup fees	(3,203)	(2,436)	(6,096)	(5,052)
Total period straight line rent and other	(4,326)	(3,306)	(8,777)	(6,424)
Recognized MRR in the period	\$ 94,304	\$ 93,352	\$ 189,144	\$ 185,221
MRR at period end				
Total period revenues (GAAP basis)	\$ 112,277	\$ 107,868	\$ 225,974	\$ 213,832
Less: Total revenues excluding last month	(74,562)	(71,262)	(188,259)	(177,226)
Total revenues for last month of period	37,715	36,606	37,715	36,606
Less: Last month recoveries	(3,597)	(2,872)	(3,597)	(2,872)
Last month deferred setup fees	(1,083)	(822)	(1,083)	(822)
Last month straight line rent and other	(1,884)	(1,221)	(1,884)	(1,221)
MRR at period end *	\$ 31,151	\$ 31,691	\$ 31,151	\$ 31,691

*Does not include our booked-not-billed MRR balance, which was \$4.4 million and \$3.3 million as of June 30, 2018 and 2017, respectively.

Net Operating Income (NOI)

We calculate net operating income ("NOI"), as net income (loss) (computed in accordance with GAAP), excluding: interest expense, interest income, tax expense (benefit) of taxable REIT subsidiaries, depreciation and amortization, write off of unamortized deferred financing costs, gain (loss) on extinguishment of debt, transaction, integration and impairment costs, gain (loss) on sale of real estate, restructuring costs and general and administrative expenses. We allocate a management fee charge of 4% of cash revenues for all facilities, with the exception of the leased facilities acquired in 2015 which are allocated a charge of 10% of cash revenues, as a property operating cost and a corresponding reduction to general and administrative expense to cover the day-to-day administrative costs to operate our data centers. The management fee charge is reflected as a reduction to net operating income.

Management uses NOI as a supplemental performance measure because it provides a useful measure of the operating results from our customer leases. In addition, we believe it is useful to investors in evaluating and comparing the operating performance of our properties and to compute the fair value of our properties. Our NOI may not be comparable to other REITs' NOI as other REITs may not calculate NOI in the same manner. NOI should be considered

only as a supplement to net income (loss) as a measure of our performance and should not be used as a measure of our results of operations or liquidity or as an indication of funds available to meet our cash needs, including our ability to make distributions to our stockholders. NOI is a measure of the operating performance of our properties and not of our performance as a whole. NOI is therefore not a substitute for net income (loss) as computed in accordance with GAAP.

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A reconciliation of net income (loss) to NOI is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net Operating Income (NOI)				
Net income (loss)	\$ (6,433)	\$ 4,608	\$ (6,685)	\$ 10,176
Interest income	(25)	—	(26)	(1)
Interest expense	8,203	7,647	16,313	14,516
Depreciation and amortization	37,819	34,527	73,733	68,475
Tax expense (benefit) of taxable REIT subsidiaries	137	(1,429)	(2,265)	(2,950)
Transaction, integration and impairment costs	653	161	1,573	497
General and administrative expenses	21,032	22,562	43,265	44,759
Restructuring	11,430	—	19,960	—
NOI (1)	\$ 72,816	\$ 68,076	\$ 145,868	\$ 135,472
Breakdown of NOI by facility:				
Atlanta-Metro data center	\$ 21,522	\$ 20,704	\$ 42,639	\$ 41,215
Atlanta-Suwanee data center	12,267	11,423	24,678	23,381
Richmond data center	7,297	8,389	16,216	16,619
Irving data center	10,870	8,057	20,617	14,497
Dulles data center	4,907	5,406	10,106	10,298
Leased data centers (2)	2,664	3,002	5,774	7,120
Santa Clara data center	2,303	2,705	4,762	5,984
Piscataway data center	3,066	2,279	6,000	4,682
Princeton data center	2,427	2,393	4,839	4,792
Sacramento data center	1,802	1,778	3,670	3,615
Chicago data center	2,460	1,275	4,413	1,922
Fort Worth data center	201	75	424	181
Other facilities (3)	1,030	590	1,730	1,166
NOI (1)	\$ 72,816	\$ 68,076	\$ 145,868	\$ 135,472

- (1) Includes facility level general and administrative expense allocation charges of 4% of cash revenue for all facilities, with the exception of the leased facilities acquired in 2015, which include general and administrative expense allocation charges of 10% of cash revenue. These allocated charges aggregated to \$5.3 million and \$5.3 million for the three month periods ended June 30, 2018 and 2017, respectively. These allocated charges aggregated to \$10.6 million and \$10.5 million for the six month periods ended June 30, 2018 and 2017, respectively.
- (2) Includes 11 facilities. All facilities are leased, including those subject to capital leases.
- (3) Consists of Miami, FL; Lenexa, KS; Overland Park, KS; and Duluth, GA facilities.

Earnings Before Interest, Taxes, Depreciation and Amortization for Real Estate (EBITDAre) and Adjusted EBITDA

We consider earnings before interest, taxes, depreciation and amortization for real estate (“EBITDAre”) to be a supplemental measure of our performance which should be considered along with, but not as an alternative to, net income (loss) and cash provided by operating activities as a measure of operating performance. We calculate EBITDAre in accordance with the standards established by the National Association of Real Estate Investment Trusts (“NAREIT”). EBITDAre represents net income (loss) (computed in accordance with GAAP), adjusted to exclude gains (or losses) from sales of depreciated property, income tax expense (or benefit), interest expense, depreciation and amortization, impairments of depreciated property and unconsolidated partnerships and joint ventures, and similar adjustments for unconsolidated partnerships and joint ventures. The Company’s management uses EBITDAre as a supplemental performance measure because it provides a performance measure that, when compared year over year, captures the performance of our operations by removing the impact of capital structure (primarily interest expense) and asset base charges (primarily depreciation and amortization), from our operating results.

Due to the volatility and nature of certain significant charges and gains recorded in our operating results that management believes are not reflective of operating performance, management computes an adjusted measure of

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EBITDAre, which we refer to as Adjusted EBITDA. We generally calculate Adjusted EBITDA excluding certain non-routine charges write off of unamortized deferred financing costs, gains (losses) on extinguishment of debt, transaction, integration and impairment costs, in addition to non-cash recurring costs such as equity-based compensation. We believe that Adjusted EBITDA provides investors with another financial measure that may facilitate comparisons of operating performance between periods and, to the extent other REITs calculate Adjusted EBITDA on a comparable basis, between REITs.

We use EBITDAre and Adjusted EBITDA as supplemental performance measures as they provide useful measures of assessing our operating results. Other companies may not calculate EBITDAre or Adjusted EBITDA in the same manner. Accordingly, our EBITDAre and Adjusted EBITDA may not be comparable to others. EBITDAre and Adjusted EBITDA should be considered only as supplements to net income (loss) as measures of our performance and should not be used as substitutes for net income (loss), as measures of our results of operations or liquidity or as an indications of funds available to meet our cash needs, including our ability to make distributions to our stockholders.

A reconciliation of net income (loss) to EBITDAre and Adjusted EBITDA is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
EBITDAre and Adjusted EBITDA				
Net income (loss)	\$ (6,433)	\$ 4,608	\$ (6,685)	\$ 10,176
Interest income	(25)	—	(26)	(1)
Interest expense	8,203	7,647	16,313	14,516
Tax expense (benefit) of taxable REIT subsidiaries	137	(1,429)	(2,265)	(2,950)
Depreciation and amortization	37,819	34,527	73,733	68,475
Impairment write-downs of depreciated property	3,122	—	7,139	—
EBITDAre	42,823	45,353	88,209	90,216
Equity-based compensation expense	3,999	3,732	7,480	6,814
Restructuring costs	8,308	—	12,821	—
Transaction, integration and restructuring costs	653	161	1,573	497
Adjusted EBITDA	\$ 55,783	\$ 49,246	\$ 110,083	\$ 97,527

Liquidity and Capital Resources

Short-Term Liquidity

Our short-term liquidity needs include funding capital expenditures for the development of data center space (a significant portion of which is discretionary), meeting debt service and debt maturity obligations, funding payments for capital lease and lease financing obligations, funding distributions to our stockholders and unit holders, utility costs, site maintenance costs, real estate and personal property taxes, insurance, rental expenses, general and administrative expenses and certain recurring and non-recurring capital expenditures.

In addition to the \$273.5 million of capital expenditures incurred in the six months ended June 30, 2018, we expect that we will incur approximately \$150 million to \$200 million in additional capital expenditures through December 31, 2018, excluding acquisitions, in connection with the development of our data center facilities. We expect to spend approximately \$110 million to \$160 million of capital expenditures with vendors on development, and the remainder on other capital expenditures and capitalized overhead costs (including capitalized interest, commissions, payroll and other similar costs), personal property and other less material capital projects. We expect to fund these costs using operating cash flows, draws on our credit facility, additional equity issuances through our ATM program or other capital markets activity. A significant portion of these expenditures are discretionary in nature and we may ultimately determine not to make these expenditures or the timing of such expenditures may vary.

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We expect to meet our short-term liquidity needs through operating cash flow, cash and cash equivalents and borrowings under our credit facility.

Our cash paid for capital expenditures for the six months ended June 30, 2018 and 2017 are summarized in the table below (unaudited and in thousands):

	Six Months Ended June 30,	
	2018	2017
Development	\$ 201,172	\$ 100,107
Acquisitions	24,626	5,019
Maintenance capital expenditures	3,542	1,968
Other capital expenditures (1)	44,138	37,743
Total capital expenditures	\$ 273,478	\$ 144,837

(1) Represents capital expenditures for capitalized interest, commissions, personal property, overhead costs and corporate fixed assets. Corporate fixed assets primarily relate to construction of corporate offices, leasehold improvements and product-related assets.

Long-Term Liquidity

Our long-term liquidity needs primarily consist of funds for property acquisitions, scheduled debt maturities, payment of principal at maturity of our Senior Notes, funding payments for capital lease and lease financing obligations, dividend payments on our Series A Preferred Stock and Series B Preferred Stock and recurring and non-recurring capital expenditures. We may also pursue new developments and additional redevelopment of our data centers and future redevelopment of other space in our portfolio. We may also pursue development on land which QTS currently owns that is available at our data center properties in Atlanta-Metro, Atlanta-Suwanee, Richmond, Irving, Fort Worth, Princeton, Chicago, Ashburn, Phoenix, Hillsboro and Manassas. The development and/or redevelopment of this space, including timing, is at our discretion and will depend on a number of factors, including availability of capital and our estimate of the demand for data center space in the applicable market. We expect to meet our long-term liquidity needs with net cash provided by operations, incurrence of additional long-term indebtedness, borrowings under our credit facility and issuance of additional equity or debt securities, subject to prevailing market conditions, as discussed below.

In March 2016, QTS filed an automatic shelf registration statement on Form S-3 with the SEC. Effective upon filing, the shelf provides for the potential sale of an unspecified amount of our Class A common stock, preferred stock, depositary shares representing preferred stock, warrants and rights to purchase our common stock or any combination thereof, subject to the ability of QTS to effect offerings on satisfactory terms based on prevailing conditions. The shelf registration statement is intended to allow us to have the flexibility to raise such funds in one or more offerings should we perceive market conditions to be favorable.

In March 2017, we established an “at-the-market” equity offering program (the “ATM Program”) pursuant to which we may issue, from time to time, up to \$300 million of our Class A common stock. We issued no shares under the ATM Program during the three and six months ended June 30, 2018.

On March 15, 2018, we issued 4,280,000 shares of 7.125% Series A Cumulative Redeemable Perpetual Preferred Stock with a liquidation preference of \$25.00 per share, which included 280,000 shares of the underwriters’ partial exercise of their option to purchase additional shares. We used the net proceeds of approximately \$103.2 million to repay amounts outstanding under our unsecured revolving credit facility.

On June 20, 2018, we issued 3,162,500 shares of 6.50% Series B Cumulative Convertible Perpetual Preferred Stock with a liquidation preference of \$100.00 per share, which included 412,500 shares the underwriters purchased pursuant to the exercise of their overallotment option in full. We used the net proceeds of approximately \$304 million to repay amounts outstanding under our unsecured revolving credit facility.

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Cash

As of June 30, 2018, we had \$52.5 million of unrestricted cash and cash equivalents.

The following tables present quarterly cash dividends and distributions paid to QTS' stockholders and the Operating Partnership's unit holders for the six months ended June 30, 2018 and 2017:

Six Months Ended June 30, 2018

Record Date	Payment Date	Per Share and Per Unit Rate	Aggregate Dividend/Distribution Amount (in millions)
Common Stock			
March 22, 2018	April 5, 2018	\$ 0.41	\$ 23.7
December 5, 2017	January 5, 2018	\$ 0.39	22.2
			\$ 45.9
Series A Preferred Stock			
April 5, 2018	April 16, 2018	\$ 0.15	\$ 0.6

Six Months Ended June 30, 2017

Record Date	Payment Date	Per Common Share and Per Unit Rate	Aggregate Dividend/Distribution Amount (in millions)
March 16, 2017	April 5, 2017	\$ 0.39	\$ 21.4
December 16, 2016	January 5, 2017	\$ 0.36	19.7
			\$ 41.1

On July 6, 2018 we paid our regular quarterly cash dividend of \$0.41 per common share and per unit in the Operating Partnership to stockholders and unit holders of record as of the close of business on June 20, 2018.

Additionally, on July 16, 2018, we paid a quarterly cash dividend of approximately \$0.45 per share on our Series A Preferred Stock.

Indebtedness

As of June 30, 2018, we had approximately \$1,106.2 million of indebtedness, including capital leases and lease financing obligations, and excluding debt issuance costs.

Unsecured Credit Facility. In December 2017, we amended our unsecured credit facility, increasing the total capacity to \$1.52 billion and extending the term. The unsecured credit facility includes a \$350 million term loan which matures on December 17, 2022, a \$350 million term loan which matures on April 27, 2023, and a \$820 million revolving credit facility which matures on December 17, 2021, with a one year extension option. Amounts outstanding under the amended unsecured credit facility bear interest at a variable rate equal to, at our election, LIBOR or a base rate, plus a spread that will vary depending upon our leverage ratio. For revolving credit loans, the spread ranges from 1.55% to 2.15% for LIBOR loans and 0.55% to 1.15% for base rate loans. For term loans, the spread ranges from 1.50% to 2.10% for LIBOR loans and 0.50% to 1.10% for base rate loans. The unsecured credit facility also includes a \$400 million accordion feature.

Under the unsecured credit facility, the capacity may be increased from the current capacity of \$1.52 billion to \$1.92 billion subject to certain conditions set forth in the credit agreement, including the consent of the administrative agent and obtaining necessary commitments. We are also required to pay a commitment fee to the lenders assessed on the unused portion of the unsecured revolving credit facility. At our election, we can prepay amounts outstanding under the unsecured credit facility, in whole or in part, without penalty or premium.

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Our ability to borrow under the amended unsecured credit facility is subject to ongoing compliance with a number of customary affirmative and negative covenants, including limitations on liens, mergers, consolidations, investments, distributions, asset sales and affiliate transactions, as well as the following financial covenants: (i) the Operating Partnership's and its subsidiaries' consolidated total unsecured debt plus any capitalized lease obligations with respect to the unencumbered asset pool properties may not exceed 60% of the unencumbered asset pool value (or 65% of the unencumbered asset pool value for up to two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated); (ii) the unencumbered asset pool debt yield cannot be less than 14% (or 12.5% for the two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated); (iii) QTS must maintain a minimum fixed charge coverage ratio (defined as the ratio of consolidated EBITDA, subject to certain adjustments, to consolidated fixed charges) for the prior two most recently-ended calendar quarters of 1.70 to 1.00; (iv) QTS must maintain a maximum debt to gross asset value (as defined in the amended and restated agreement) ratio of 60% (or 65% for the two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated); (v) QTS must maintain tangible net worth (as defined in the amended and restated agreement) cannot be less than the sum of \$1,209,000,000 plus 75% of the net proceeds from any equity offerings after June 30, 2017; and (vi) a maximum distribution payout ratio of the greater of (i) 95% of our Funds from Operations (as defined in the amended and restated agreement) and (ii) the amount required for the Company to qualify as a REIT under the Code.

The availability under the revolving credit facility is the lesser of (i) \$820 million, (ii) 60% of the unencumbered asset pool capitalized value (or 65% of the unencumbered asset pool capitalized value for the two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated) and (iii) the amount resulting in an unencumbered asset pool debt yield of 14% (or 12.5% for the two consecutive fiscal quarters immediately following a material acquisition for which the Operating Partnership has provided written notice to the Agent; provided the two fiscal quarter period includes the quarter in which the material acquisition was consummated). In the case of clauses (ii) and (iii) of the preceding sentence, the amount available under the revolving credit facility is adjusted to take into account any other unsecured debt and certain capitalized leases. A material acquisition is an acquisition of properties or assets with a gross purchase price equal to or in excess of 15% of the Operating Partnership's gross asset value (as defined in the amended and restated agreement) as of the end of the most recently ended quarter for which financial statements are publicly available. The availability of funds under our unsecured credit facility depends on compliance with our covenants.

As of June 30, 2018, we had outstanding \$700 million of indebtedness under the unsecured credit facility, all of which was outstanding under the term loans, exclusive of net debt issuance costs of \$5.2 million. There were no outstanding borrowings on our unsecured revolving credit facility as of June 30, 2018. In connection with the unsecured credit facility, as of June 30, 2018, we had letters of credit outstanding aggregating to \$4.1 million. As of June 30, 2018, the weighted average interest rate for amounts outstanding under our unsecured credit facility, including the effects of interest rate swaps, was 3.50%.

On April 5, 2017, we entered into forward interest rate swap agreements with an aggregate notional amount of \$400 million. The forward swap agreements effectively fix the interest rate on \$400 million of term loan borrowings, \$200 million of swaps allocated to each term loan, from January 2, 2018 through December 17, 2021 and April 27, 2022, respectively. The weighted average effective fixed interest rate on the \$400 million notional amount of term loan financing approximates 3.5%, which commenced on January 2, 2018 and assumes the current LIBOR spread of 1.5%.

4.750% Senior Notes due 2025. On November 8, 2017, the Operating Partnership and QTS Finance Corporation, a subsidiary of the Operating Partnership formed solely for the purpose of facilitating the offering of the 5.875% Senior Notes due 2022 (collectively, the “Issuers”) issued \$400 million aggregate principal amount of 4.75% Senior Notes due November 15, 2025 (the “Senior Notes”) in a private offering. The Senior Notes have an interest rate of 4.750% per annum and were issued at a price equal to 100% of their face value. The net proceeds from the offering were used to fund the redemption of, and satisfy and discharge the indenture pursuant to which the Issuers issued, the 5.875% Senior

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Notes due 2022 and to repay a portion of the amount outstanding under the Company's unsecured revolving credit facility.

The Senior Notes are unconditionally guaranteed, jointly and severally, on a senior unsecured basis by all of the Operating Partnership's existing subsidiaries (other than foreign subsidiaries and receivables entities) and future subsidiaries that guarantee any indebtedness of QTS, the Issuers or any other subsidiary guarantor. QTS Realty Trust, Inc. does not guarantee the Senior Notes and will not be required to guarantee the Senior Notes except under certain circumstances. The offering was conducted pursuant to Rule 144A of the Securities Act of 1933, as amended, and the Senior Notes were issued pursuant to an indenture, dated as of November 8, 2017, among QTS, the Issuers, the guarantors named therein, and Deutsche Bank Trust Company Americas, as trustee (the "Indenture"). As of June 30, 2018, the outstanding net debt issuance costs associated with the Senior Notes were \$5.6 million.

The Indenture contains affirmative and negative covenants that, among other things, limit or restrict the Operating Partnership's ability and the ability of certain of its subsidiaries (the "Restricted Subsidiaries") to: incur additional indebtedness; pay dividends; make certain investments or other restricted payments; enter into transactions with affiliates; enter into agreements limiting the ability of the Operating Partnership's restricted subsidiaries to pay dividends; engage in sales of assets; and engage in mergers, consolidations or sales of substantially all of their assets.

However, certain of these covenants will be suspended if and for so long as the Senior Notes are rated investment grade by specified debt rating services and there are no default under the Indenture. The Operating Partnership and its Restricted Subsidiaries also are required to maintain total unencumbered assets (as defined in the Indenture) of at least 150% of their unsecured debt on a consolidated basis.

The Senior Notes may be redeemed by the Issuers, in whole or in part, at any time prior to November 15, 2020 at a redemption price equal to (i) 100% of the principal amount, plus (ii) accrued and unpaid interest to the redemption date, and (iii) a make-whole premium. On or after November 15, 2020, the Issuers may redeem the Senior Notes, in whole or in part, at a redemption price equal to (i) 103.563% of the principal amount from November 15, 2020 to November 14, 2021, (ii) 102.375% of the principal amount from November 15, 2021 to November 14, 2022, (iii) 101.188% of the principal amount from November 15, 2022 to November 14, 2023 and (iv) 100.000% of the principal amount of the Senior Notes from November 15, 2023 and thereafter, in each case plus accrued and unpaid interest to, but excluding, the redemption date. In addition, at any time prior to November 15, 2020, the Issuers may, subject to certain conditions, redeem up to 40% of the aggregate principal amount of the Senior Notes at 104.750% of the principal amount thereof, plus accrued and unpaid interest to, but excluding, the redemption date, with the net cash proceeds of certain equity offerings consummated by the Company or the Operating Partnership. Also, upon the occurrence of a change of control of us or the Operating Partnership, holders of the Senior Notes may require the Issuers to repurchase all or a portion of the Senior Notes at a price equal to 101% of the principal amount of the Senior Notes to be repurchased plus accrued and unpaid interest to the repurchase date.

Lenexa Mortgage. On March 8, 2017, we entered into a \$1.9 million mortgage loan secured by our Lenexa facility. This mortgage has a fixed rate of 4.1%, with periodic principal payments due monthly and a balloon payment of \$1.6 million in May 2022. As of June 30, 2018, the outstanding balance under the Lenexa mortgage was \$1.8 million.

Contingencies

We are subject to various routine legal proceedings and other matters in the ordinary course of business. While resolution of these matters cannot be predicted with certainty, management believes, based upon information currently available, that the final outcome of these proceedings will not have a material adverse effect on our financial condition, liquidity or results of operations.

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Contractual Obligations

The following table summarizes our contractual obligations as of June 30, 2018, including the future non-cancellable minimum rental payments required under operating leases and the maturities and scheduled principal repayments of indebtedness and other agreements (unaudited and in thousands):

Obligations	2018	2019	2020	2021	2022	Thereafter	Total
Operating Leases	\$ 7,837	\$ 12,211	\$ 11,078	\$ 11,024	\$ 10,185	\$ 67,502	\$ 119,837
Capital Leases and Lease Financing Obligations	3,301	956	117	9	—	—	4,383
Future Principal Payments of Indebtedness (1)	28	68	71	74	350,077	751,516	1,101,834
Total (2)	\$ 11,166	\$ 13,235	\$ 11,266	\$ 11,107	\$ 360,262	\$ 819,018	\$ 1,226,054

(1) Does not include the related debt issuance costs on Senior Notes nor the related debt issuance costs on the term loans reflected at June 30, 2018. Also does not include letters of credit outstanding aggregating to \$4.1 million as of June 30, 2018 under our unsecured credit facility.

(2) Total obligations does not include contractual interest that we are required to pay on our long-term debt obligations. Contractual interest payments on our credit facility, Senior Notes, capital leases, lease financing obligations and other financing arrangements through the scheduled maturity date, assuming no prepayment of debt and inclusive of the effects of interest rate swaps, are shown below. Interest payments were estimated based on the principal amount of debt outstanding and the applicable interest rate as of June 30, 2018 (unaudited and in thousands):

2018	2019	2020	2021	2022	Thereafter	Total
\$ 22,828	\$ 45,618	\$ 45,609	\$ 45,527	\$ 42,977	\$ 58,586	\$ 261,145

Off-Balance Sheet Arrangements

The Company does not have any off-balance sheet arrangements.

Cash Flows

Cash flow for the six months ended June 30, 2018 compared to the six months ended June 30, 2017 are summarized below (unaudited and in thousands):

	Six Months Ended June 30,	
	2018	2017
Cash flow provided by (used for):		
Operating activities	\$ 91,526	\$ 77,384
Investing activities	(271,982)	(144,837)
Financing activities	224,681	100,477

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Cash flow provided by operating activities was \$91.5 million for the six months ended June 30, 2018 compared to \$77.4 million for the six months ended June 30, 2017. The increase in cash flow provided by operating activities of \$14.1 million is primarily attributed to cash flow associated with net changes in working capital of \$15.1 million primarily related to changes in accounts payable and accrued liabilities. This increase was partially offset by a reduction in cash operating income of \$1.0 million which was primarily related to cash restructuring charges associated with our strategic growth plan.

Cash flow used for investing activities increased by \$127.1 million to \$272.0 million for the six months ended June 30, 2018, compared to \$144.8 million for the six months ended June 30, 2017. The increase was due primarily to an increase

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in cash paid for development capital expenditures of \$109.0 million as well as an increase in cash paid for acquisitions of \$19.6 million attributable to the cash paid for the acquisition of land in Manassas, Virginia.

Cash flow provided by financing activities was \$224.7 million for the six months ended June 30, 2018, compared to \$100.5 million for the six months ended June 30, 2017. The increase was primarily due to an increase in net equity proceeds of \$369.4 million, attributable to \$408.4 million of aggregate proceeds received in the current year from our Series A Preferred Stock offering and Series B Preferred Stock offering compared to \$39.0 million of equity proceeds received in the prior year from common stock issuances under our ATM. Offsetting this increase was lower net proceeds of \$240.0 million under our unsecured credit facility, primarily a result of the payoff of the revolver using proceeds from the Series A Preferred Stock offering and Series B Preferred Stock offering, as well as higher payments of cash dividends to common and preferred stockholders of \$5.3 million.

Critical Accounting Policies

The Company applies those accounting policies that management believes best reflect the underlying business and economic events, consistent with accounting principles generally accepted in the United States. Inherent in such policies are certain key assumptions and estimates made by management. Management periodically updates its estimates used in the preparation of the consolidated financial statements based on its latest assessment of the current and projected business and general economic environment.

Effective January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers, which resulted in changes to the Company's critical accounting policy relating to revenue recognition. Refer to Note 2 – 'Summary of Significant Accounting Policies' for additional information regarding the new and updated policies as a result of the adoption of ASC Topic 606.

Additional information regarding the Company's Critical Accounting Policies and Estimates is included in Item 7 of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Inflation

Substantially all of our long-term leases - leases with a term greater than three years - contain rent increases and reimbursement for certain operating costs. As a result, we believe that we are largely insulated from the effects of inflation over periods greater than three years. Leases with terms of three years or less will be replaced or renegotiated within three years and should adjust to reflect changed conditions, also mitigating the effects of inflation. Moreover, to the extent that there are material increases in utility costs, we generally reserve the right to renegotiate the rate.

However, any increases in the costs of redevelopment of our properties will generally result in a higher cost of the property, which will result in increased cash requirements to redevelop our properties and increased depreciation and amortization expense in future periods, and, in some circumstances, we may not be able to directly pass along the increase in these redevelopment costs to our customers in the form of higher rental rates.

Distribution Policy

To satisfy the requirements to qualify as a REIT, and to avoid paying tax on our income, QTS intends to continue to make regular quarterly distributions of all, or substantially all, of its REIT taxable income (excluding net capital gains) to its stockholders.

All distributions will be made at the discretion of our board of directors and will depend on our historical and projected results of operations, liquidity and financial condition, QTS' REIT qualification, our debt service requirements, operating expenses and capital expenditures, prohibitions and other restrictions under financing arrangements and applicable law and other factors as our board of directors may deem relevant from time to time. We anticipate that our estimated cash available for distribution will exceed the annual distribution requirements applicable to REITs and the amount necessary to avoid the payment of tax on undistributed income. However, under some circumstances, we may be required to make distributions in excess of cash available for distribution in order to meet these distribution requirements and we may need

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to borrow funds to make certain distributions. If we borrow to fund distributions, our future interest costs would increase, thereby reducing our earnings and cash available for distribution from what they otherwise would have been.

The Operating Partnership also includes certain partners that are subject to a taxable income allocation, however, not entitled to receive recurring distributions. The partnership agreement does stipulate however, to the extent that taxable income is allocated to these partners that the partnership will make a distribution to these partners equal to the lesser of the actual per unit distributions made to Class A partners or an estimated amount to cover federal, state and local taxes on the allocated taxable income. No distributions related to allocated taxable income were made to these partners for the six months ended June 30, 2018 and 2017.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. The primary market risk to which we believe we are exposed is interest rate risk. Many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control, contribute to interest rate risk.

As of June 30, 2018, after consideration of interest rate swaps, we had outstanding \$300 million of consolidated indebtedness that bore interest at variable rates.

We monitor our market risk exposures using a sensitivity analysis. Our sensitivity analysis estimates the exposure to market risk sensitive instruments assuming a hypothetical 1% change in year-end interest rates. A 1% increase in the LIBOR rate would increase the interest expense on the \$300 million of variable indebtedness outstanding as of June 30, 2018 by approximately \$3.0 million annually. Conversely, a decrease in the LIBOR rate to 1.09% would decrease the interest expense on this \$300 million of variable indebtedness outstanding by approximately \$3.0 million annually based on the one month LIBOR rate of approximately 2.09% as of June 30, 2018.

On April 5, 2017, the Company entered into forward interest rate swap agreements with an aggregate notional amount of \$400 million. The forward swap agreements effectively fix the interest rate on \$400 million of term loan borrowings, \$200 million of swaps allocated to each term loan, from January 2, 2018 through December 17, 2021 and April 27, 2022, respectively. The Company's weighted average interest rate on floating rate debt as of June 30, 2018 was approximately 3.48%. The weighted average effective fixed interest rate on the \$400 million notional amount of term loan financing approximates 3.5%, which commenced on January 2, 2018 and assumes the current LIBOR spread of 1.5%.

The above analyses do not consider the effect of any change in overall economic activity that could impact interest rates or expected changes associated with future indebtedness. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

ITEM 4. Controls and Procedures

QTS Realty Trust, Inc.

Disclosure Controls and Procedures

Based on an evaluation of disclosure controls and procedures for the period ended June 30, 2018, conducted by the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer concluded that QTS' disclosure controls and procedures are effective to ensure that information required to be disclosed by QTS in reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management (including the Chief Executive Officer

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and Chief Financial Officer) to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in QTS' internal control over financial reporting during the period ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, QTS' internal control over financial reporting.

QualityTech, LP

Disclosure Controls and Procedures

Based on an evaluation of disclosure controls and procedures for the period ended June 30, 2018, conducted by the Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, the Chief Executive Officer and Chief Financial Officer concluded that the Operating Partnership's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Operating Partnership in reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes in the Operating Partnership's internal control over financial reporting during the period ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

In the ordinary course of our business, we are subject to claims and administrative proceedings, none of which we believe are material or would be expected to have, individually or in the aggregate, a material adverse effect on us.

ITEM 1A. Risk Factors

There have been no material changes to the risk factors disclosed in our Form 10-K for the year ended December 31, 2017, filed with the Securities and Exchange Commission (“SEC”) on February 28, 2018, which are accessible on the SEC’s website at www.sec.gov.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities

QTS did not sell any securities during the six months ended June 30, 2018 that were not registered under the Securities Act of 1933, as amended (the “Securities Act”).

QTS from time to time issues shares of Class A common stock pursuant to the QTS Realty Trust, Inc. 2013 Equity Incentive Plan (the “2013 Equity Incentive Plan”), upon exercise of stock options issued under the 2013 Equity Incentive Plan, upon redemption of Class A units of limited partnership of the Operating Partnership (either through Class A units previously held or those received from conversion of Class O units from the QualityTech, LP 2010 Equity Incentive Plan) and under the ATM Program. Pursuant to the partnership agreement of the Operating Partnership, each time QTS issues shares of common stock, the Operating Partnership issues to QTS, its general partner, an equal number of Class A units. The units issued to QTS are not registered under the Securities Act in reliance on Section 4(a)(2) of the Securities Act due to the fact that Class A units were issued only to QTS and therefore, did not involve a public offering. A minimal amount of units were converted to common stock during the six months ended June 30, 2018. Additionally, the Operating Partnership issued approximately 0.5 million Class A units related to the conversion of Class O units with a value aggregating approximately \$16.1 million based on the respective dates of the redemption. Approximately 180,000 of the aforementioned Class A units with value aggregating to \$2.9 million based on the respective date of redemption were converted to Class A common stock.

There were also 50,000 Class A units that were previously held as Class A units were also converted to Class A common stock with a value aggregating to approximately \$1.6 million based on the date of redemption. In addition, during the six months ended June 30, 2018, the Operating Partnership issued 4,280,000 Series A Preferred Units to the Company and 3,162,500 Series B Preferred Units to the Company, which have economic terms that are substantially similar to the Company's Series A Preferred Stock and Series B Preferred Stock. These units issued to QTS are not registered under the Securities Act in reliance on Section 4(a)(2) of the Securities Act due to the fact that Series A Preferred Units and Series B Preferred Units were issued only to QTS and therefore, did not involve a public offering. The Series A Preferred Units and Series B Preferred Units were issued in exchange for the Company's contribution of the net offering proceeds of the offering of the Series A Preferred Stock to the Operating Partnership and Series B Preferred Stock to the Operating Partnership.

Repurchases of Equity Securities

During the three months ended June 30, 2018, certain of our employees surrendered Class A common stock owned by them to satisfy their federal and state tax obligations in connection with the vesting of restricted common stock under the 2013 Equity Incentive Plan.

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The following table summarizes all of these repurchases during the three months ended June 30, 2018:

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1, 2018 through April 30, 2018	2,174	(1) \$ 35.94	N/A	N/A
May 1, 2018 through May 31, 2018	—	N/A	N/A	N/A
June 1, 2018 through June 30, 2018	7,289	(1) \$ 39.50	N/A	N/A
Total	9,463	(1) \$ 38.68		

(1) The number of shares purchased represents shares of Class A common stock surrendered by certain of our employees to satisfy their federal and state tax obligations associated with the vesting of restricted common stock. With respect to these shares, the price paid per share is based on the closing price of our Class A common stock as of the date of the determination of the federal income tax.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None.

ITEM 6. Exhibits

Exhibit Number	Exhibit Description
2.1	<u>Stock Purchase Agreement dated May 6, 2016 by and among Quality Technology Services Holding, LLC, Carpathia Holdings, LLC and Carpathia Acquisition, Inc., incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on May 12, 2015 (Commission File No. 002-36109)</u>
2.2	<u>First Amendment to Stock Purchase Agreement dated June 12, 2015, incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K filed with the SEC on June 19, 2015 (Commission File No. 001-36109)</u>
3.1	<u>Articles of Amendment and Restatement of QTS Realty Trust, Inc., incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed with the SEC on October 17, 2013 (Commission File No. 001-36109)</u>
3.2	<u>Second Amended and Restated Bylaws of QTS Realty Trust, Inc., incorporated by reference to Exhibit 3.2 to the Quarterly Report on Form 10-Q filed with the SEC on May 8, 2017 (Commission File No. 001-36109)</u>
3.3	<u>Articles Supplementary designating QTS Realty Trust, Inc.'s 7.125% Series A Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, \$0.01 par value per share, incorporated by reference to Exhibit 3.2 to the Company's Form 8-A filed on March 15, 2018 (Commission File No. 001-36109)</u>

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- 3.4 Articles Supplementary designating QTS Realty Trust, Inc.'s 6.50% Series B Cumulative Convertible Perpetual Preferred Stock, liquidation preference \$100.00 per share, \$0.01 par value per share, incorporated by reference to Exhibit 3.3 to the Company's Form 8-A filed on June 25, 2018 (Commission File No. 001-36109)
- 4.1 Form of Specimen Class A Common Stock Certificate, incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-11/A filed with the SEC on September 26, 2013 (Commission File No. 333-190675)
- 4.2 Indenture, dated November 8, 2017, by and among QualityTech, LP, QTS Finance Corporation, QTS Realty Trust, Inc., certain subsidiaries of QualityTech, LP and Deutsche Bank Trust Company Americas, incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed with the SEC on November 8, 2017 (Commission File No. 001-36109)
- 4.3 Form of 4.750% Senior Notes due 2025 (included as Exhibit A to Exhibit 4.2 hereof)
- 4.4 Supplemental Indenture, dated as of December 22, 2017, by and among QualityTech, LP, QTS Finance Corporation, QTS Realty Trust, Inc., the entities identified therein as Guaranteeing Subsidiaries, the entities identified therein as Subsidiary Guarantors, and Deutsche Bank Trust Company Americas, to the Indenture dated, as of November 8, 2017, by and among QualityTech, LP, and QTS Finance Corporation, as issuers, QTS Realty Trust, Inc., each of the subsidiary guarantors party thereto, and Deutsche Bank Trust Company Americas, as trustee, incorporated by reference to Exhibit 4.4 to the Annual Report on Form 10-K filed with the SEC on February 28, 2018 (Commission File No. 001-36109)
- 4.5 Form of stock certificate evidencing the 7.125% Series A Cumulative Redeemable Perpetual Preferred Stock, liquidation preference \$25.00 per share, \$0.01 par value per share, incorporated by reference to Exhibit 4.1 to the Company's Form 8-A filed on March 15, 2018 (Commission File No. 001-36109)
- 4.6 Form of stock certificate evidencing the 6.50% Series B Cumulative Convertible Perpetual Preferred Stock, liquidation preference \$100.00 per share, \$0.01 par value per share, incorporated by reference to Exhibit 4.1 to the Company's Form 8-A filed on June 25, 2018 (Commission File No. 001-36109)
- 10.1 Amendment No. 2 to Fifth Amended and Restated Agreement of Limited Partnership of QualityTech, LP, dated as of June 25 2018, by QTS Realty Trust, Inc., incorporated by reference to Exhibit 10.1 to the Company's Form 8-K filed on June 27, 2018 (Commission File No. 001-36109)
- 10.2 Transaction Agreement, dated as of April 24, 2018, by and between QTS Technology Services Holding, LLC, QualityTech, LP, and General Datatech, L.P.
- 10.3 Channel Agreement, dated as of April 24, 2018, by and between QTS Technology Services Holding, LLC and General Datatech, L.P.
- 10.4 Transition Services Agreement, dated as of April 24, 2018, by and between QTS Technology Services Holding, LLC, QualityTech, LP, and General Datatech, L.P.
- 10.5 Second Amendment to Employment Agreement, dated June 5, 2018, by and among QTS Realty Trust, Inc., QualityTech, LP, Quality Technology Services, LLC, and William H. Schafer
- 10.6 Transition Agreement & Release of All Claims, dated as of May 3, 2018, by and between QTS Realty Trust, Inc., QualityTech, LP, Quality Technology Services, LLC and all related companies, and all related companies

and Daniel T. Bennewitz

10.7 Third Amendment to Employment Agreement, dated June 29, 2018, by and among QTS Realty Trust, Inc., QualityTech, LP, Quality Technology Services, LLC, and William H. Schafer

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- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (QTS Realty Trust, Inc.)
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (QTS Realty Trust, Inc.)
- 31.3 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (QualityTech, LP)
- 31.4 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (QualityTech, LP)
- 32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (QTS Realty Trust, Inc.)
- 32.2 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (QualityTech, LP)
- 101 The following materials from QTS Realty Trust, Inc.'s and QualityTech, LP's Quarterly Report on Form 10-Q for the period ended June 30, 2018, formatted in XBRL (eXtensible Business Reporting Language):
 (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of operations and comprehensive income (loss), (iii) condensed consolidated statements of equity and partners' capital, (iv) condensed consolidated statements of cash flow, and (v) the notes to the condensed consolidated financial statements

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

QTS Realty Trust, Inc.

DATE: August 3, 2018 /s/ Chad L. Williams
Chad L. Williams
Chairman and Chief Executive Officer

DATE: August 3, 2018 /s/ William H. Schafer
William H. Schafer
Executive Vice President – Finance and Accounting
(Principal Accounting Officer)

DATE: August 3, 2018 /s/ Jeffrey H. Berson
Jeffrey H. Berson
Chief Financial Officer
(Principal Financial Officer)

QualityTech, LP

By: QTS Realty Trust, Inc.,
its general partner

DATE: August 3, 2018 /s/ Chad L. Williams
Chad L. Williams
Chairman and Chief Executive Officer

DATE: August 3, 2018 /s/ William H. Schafer
William H. Schafer
Executive Vice President – Finance and Accounting
(Principal Accounting Officer)

DATE: August 3, 2018 /s/ Jeffrey H. Berson
Jeffrey H. Berson
Chief Financial Officer
(Principal Financial Officer)

