EQUINIX INC
Form 10-Q
May 04, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 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 000-31293

EQUINIX, INC.
(Exact name of registrant as specified in its charter)

Delaware	77-0487526
(State of incorporation)	(I.R.S. Employer Identification No.)

One Lagoon Drive, Redwood City, California 94065
(Address of principal executive offices, including ZIP code)
(650) 598-6000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) Yes ý No ¨ and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
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 definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

The number of shares outstanding of the registrant's Common Stock as of May 3, 2018 was 79,457,772.

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PART I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
EQUINIX, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	March 31, 2018 (Unaudited)	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$2,023,808	$1,412,517
Short-term investments	27,033	28,271
Accounts receivable, net of allowance for doubtful accounts of $19,173 and $18,228	645,468	576,313
Other current assets	247,175	232,027
Total current assets	2,943,484	2,249,128
Long-term investments	12,173	9,243
Property, plant and equipment, net	9,696,692	9,394,602
Goodwill	4,485,155	4,411,762
Intangible assets, net	2,356,608	2,384,972
Other assets	447,816	241,750
Total assets	$19,941,928	$18,691,457
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable and accrued expenses	$686,612	$719,257
Accrued property, plant and equipment	257,813	220,367
Current portion of capital lease and other financing obligations	77,386	78,705
Current portion of mortgage and loans payable	79,699	64,491
Other current liabilities	144,965	159,914
Total current liabilities	1,246,475	1,242,734
Capital lease and other financing obligations, less current portion	1,629,597	1,620,256
Mortgage and loans payable, less current portion	1,416,538	1,393,118
Senior notes	7,900,611	6,923,849
Other liabilities	608,156	661,710
Total liabilities	12,801,377	11,841,667
Commitments and contingencies (Note 9)		
Stockholders' equity:		
Common stock, $0.001 par value per share: 300,000,000 shares authorized; 79,457,531 and 79,038,062 shares outstanding	80	79
Additional paid-in capital	10,193,030	10,121,323
Treasury stock, at cost; 399,385 and 402,342 shares	(145,695)	(146,320)
Accumulated dividends	(2,776,178)	(2,592,792)
Accumulated other comprehensive loss	(718,169)	(785,189)
Retained earnings	587,483	252,689
Total stockholders' equity	7,140,551	6,849,790
Total liabilities and stockholders' equity	$19,941,928	$18,691,457

See accompanying notes to condensed consolidated financial statements.

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EQUINIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Revenues	$1,215,877	$949,525
Costs and operating expenses:		
Cost of revenues	622,430	468,961
Sales and marketing	159,776	128,927
General and administrative	203,157	181,399
Acquisition costs	4,639	3,025
Total costs and operating expenses	990,002	782,312
Income from operations	225,875	167,213
Interest income	4,610	3,092
Interest expense	(126,277)	(111,684)
Other income (expense)	(3,064)	337
Loss on debt extinguishment	(21,491)	(3,503)
Income before income taxes	79,653	55,455
Income tax expense	(16,759)	(13,393)
Net income	$62,894	$42,062
Earnings per share ("EPS"):		
Basic EPS	$0.79	$0.58
Weighted-average shares for basic EPS	79,241	72,773
Diluted EPS	$0.79	$0.57
Weighted-average shares for diluted EPS	79,649	73,367
Cash dividends declared per common share	$2.28	$2.00

See accompanying notes to condensed consolidated financial statements.

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EQUINIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Net income	$62,894	$42,062
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment ("CTA") gain	145,851	106,938
Net investment hedge CTA loss, net of tax effect of $1,637 and $0	(72,635)	(28,551)
Unrealized loss on available-for-sale securities, net of tax effect of $0 and $(99)	—	(265)
Unrealized loss on cash flow hedges, net of tax effects of $1,360 and $4,051	(4,080)	(11,727)
Net actuarial gain on defined benefit plans, net of tax effects of $(6) and $(6)	8	11
Total other comprehensive income, net of tax	69,144	66,406
Comprehensive income, net of tax	$132,038	$108,468

See accompanying notes to condensed consolidated financial statements.

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EQUINIX, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Three Months Ended March 31,	
	2018	2017
	(Unaudited)	
Cash flows from operating activities:		
Net income	$62,894	$42,062
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	256,952	187,989
Stock-based compensation	42,536	38,323
Amortization of intangible assets	50,616	29,017
Amortization of debt issuance costs and debt discounts	4,099	11,580
Provision for allowance for doubtful accounts	3,281	6,710
Loss on debt extinguishment	21,491	3,503
Other items	4,504	3,677
Changes in operating assets and liabilities:		
Accounts receivable	(71,275)	(39,664)
Income taxes, net	(15,381)	(20,637)
Other assets	(6,694)	47,132
Accounts payable and accrued expenses	(35,143)	(65,414)
Other liabilities	(16,973)	3,093
Net cash provided by operating activities	300,907	247,371
Cash flows from investing activities:		
Purchases of investments	(29,265)	(26,256)
Sales and maturities of investments	28,768	19,152
Business acquisitions, net of cash and restricted cash acquired	—	(36,041)
Purchases of real estate	(14,700)	(41,739)
Purchases of other property, plant and equipment	(349,729)	(277,242)
Proceeds from sale of assets, net of cash transferred	—	47,767
Net cash used in investing activities	(364,926)	(314,359)
Cash flows from financing activities:		
Proceeds from employee equity awards	25,847	20,074
Payment of dividends and special distribution	(186,999)	(148,083)
Proceeds from public offering of common stock, net of issuance costs	—	2,126,258
Proceeds from senior notes	929,850	1,250,000
Proceeds from loans payable	—	1,059,800
Repayments of capital lease and other financing obligations	(55,787)	(16,596)
Repayments of mortgage and loans payable	(6,599)	(21,510)
Debt extinguishment costs	(20,704)	(3,132)
Debt issuance costs	(11,583)	(40,665)
Other financing activities	—	(900)
Net cash provided by financing activities	674,025	4,225,246
Effect of foreign currency exchange rates on cash, cash equivalents and restricted cash	7,903	11,541
Net increase in cash, cash equivalents and restricted cash	617,909	4,169,799
Cash, cash equivalents and restricted cash at beginning of period	1,450,701	773,247
Cash, cash equivalents and restricted cash at end of period	$2,068,610	$4,943,046

Cash and cash equivalents	$2,023,808	$4,923,259
Current portion of restricted cash included in other current assets	33,460	9,927
Non-current portion of restricted cash included in other assets	11,342	9,860
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	$2,068,610	$4,943,046

See accompanying notes to condensed consolidated financial statements.

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EQUINIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Equinix, Inc. ("Equinix" or the "Company") and reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state the financial position and the results of operations for the interim periods presented. The condensed consolidated balance sheet data as of December 31, 2017 has been derived from audited consolidated financial statements as of that date. The condensed consolidated financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission ("SEC"), but omit certain information and footnote disclosure necessary to present the statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). For further information, refer to the Consolidated Financial Statements and Notes thereto included in Equinix’s Form 10-K as filed with the SEC on February 26, 2018. Results for the interim periods are not necessarily indicative of results for the entire fiscal year.

Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Equinix and its subsidiaries, including the acquisitions of Itconic from October 9, 2017, the Zenium data center from October 6, 2017, the Verizon data center business from May 1, 2017, and the IO UK data center operating business from February 3, 2017. All intercompany accounts and transactions have been eliminated in consolidation.

Income Taxes

The Company elected to be taxed as a Real Estate Investment Trust ("REIT") for federal income tax purposes beginning with its 2015 taxable year. As a result, the Company may deduct the distributions made to its stockholders from taxable income generated by the Company and its qualified REIT subsidiaries ("QRSs"). The Company’s dividends paid deduction generally eliminates the U.S. taxable income of the Company and its QRSs, resulting in no U.S. income tax due. However, the Company's taxable REIT subsidiaries ("TRSs") will continue to be subject to income taxes on any taxable income generated by them. In addition, the foreign operations of the Company will continue to be subject to local income taxes regardless of whether the foreign operations are operated as a QRS or TRS.

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 Company, tax law changes and future business acquisitions.

The Company's effective tax rates were 21.0% and 24.2% for the three months ended March 31, 2018 and 2017, respectively.

Legislation commonly referred to as the Tax Cuts and Jobs Act (“TCJA”), which was signed into law on December 22, 2017, contains many significant changes to the existing U.S. federal income tax laws. Among other things, the TCJA reduces the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, limits the tax deductibility of interest expense, accelerates expensing of certain business assets and transitions the U.S. international taxation from a worldwide tax system to a territorial tax system by imposing a one-time mandatory repatriation of undistributed foreign earnings. The Company recognized an income tax expense of $6.5 million during the fourth quarter of 2017. The provisional amount relates to the re-measurement of the net deferred tax assets in the U.S. TRS as a result of the reduced corporate income tax rate. The Company is still analyzing the new tax legislation and assessing the impact as of the end of the current quarter. The Company will conclude whether any adjustments are required to its net deferred tax asset balance in the U.S. when it files its 2017 U.S. federal tax return in the fourth quarter of 2018. Any adjustments to these provisional amounts will be reported as a component of tax expense (benefit) in the reporting period when such adjustments are determined.

Recent Accounting Pronouncements

Accounting Standards Not Yet Adopted

In August 2017, Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-12 Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU was issued to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements and to simplify the application of the hedge accounting guidance in current GAAP. This ASU permits hedge accounting for risk components involving nonfinancial risk and interest rate risk, requires an entity to present the earnings effect of the hedging instrument in the same income statement line item in which the hedged item is reported, no longer requires separate measurement and reporting of hedge ineffectiveness, eases the requirement for hedge effectiveness assessment, and requires a tabular disclosure related to the effect on the income statement of fair value and cash flow hedges. This ASU is effective for annual or any interim reporting periods beginning after December 15, 2018 with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements, including its accounting policies, processes and systems.

In June 2016, FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company expects this ASU to impact its accounting for allowances for doubtful accounts and is currently evaluating the extent of the impact that the adoption of this standard will have on its consolidated financial statements, including its accounting policies, processes and systems.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). In September 2017 and January 2018, the FASB issued ASU 2017-13 and ASU 2018-01, respectively, which provide additional implementation guidance on the previously issued ASU 2016-02. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The new lease guidance simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company plans to elect the practical expedient that it will not reassess whether any expired or existing contracts are or contain leases, the lease classification for any expired or existing leases or initial direct costs for any existing leases. The Company expects to record a significant increase in assets and liabilities on the consolidated balance sheet at adoption due to the recording of right-of-use assets and corresponding lease liabilities for leases that are accounted for as operating leases. The Company is currently evaluating the extent of the impact that the adoption of this standard will have on its consolidated financial statements, including its accounting policies, processes and systems.

Accounting Standards Adopted

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") and issued subsequent amendments to the initial guidance with ASU 2015-14, ASU 2016-08, ASU 2016-10, ASU 2016-11, ASU 2016-12, ASU 2016-20, ASU 2017-13 and ASU 2017-14 collectively referred as "Topic 606." Topic 606 replaces most existing revenue recognition guidance in U.S. GAAP. The core principle of Topic 606 is that an entity should recognize revenue for the transfer of control of the goods or services equal to the amount that it expects to be entitled to receive for those goods or services. Topic 606 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments.

On January 1, 2018, the Company adopted Topic 606 using the modified retrospective approach applied to those contracts, which were not completed as of January 1, 2018, and recognized a net increase to the opening retained earnings of $269.8 million, net of tax impacts. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while the comparative information has not been restated and continues to be reported under accounting standards in effect for those periods.

In adopting the new guidance, the Company elected to apply the practical expedient which allows the Company, when using the modified retrospective method of adoption, to not retrospectively restate contracts with multiple modifications on a modification by modification basis. Instead, the Company will reflect the aggregate amount of all modifications that occur before the beginning of the earliest period presented using the new standard. In addition, where appropriate, the Company elected to apply the practical expedient to account for the new standard under the portfolio approach as the Company reasonably expects that the effects of applying the guidance under the portfolio approach will not differ materially from applying the guidance to individual contracts.

The most significant impacts to the Company from Topic 606 relate to installation revenue and the cost to obtain contracts. Under the new standard, the Company now recognizes installation revenue over the contract period rather than over the estimated installation life as under the prior revenue standard. Under the new standard, the Company is also required to capitalize and amortize certain costs to obtain contracts, rather than expense them immediately as under the previous standard.

The cumulative effect of the changes made to the Company's consolidated January 1, 2018 balance sheet from the adoption of Topic 606 was as follows (in thousands):

Balance Sheet	Balance at December 31, 2017	Adjustments due to adoption of Topic 606	Balance at January 1, 2018
Assets			
Other current assets	$232,027	$ 9,002	$241,029
Other assets [1]	241,750	179,578	421,328
Liabilities			
Other current liabilities	159,914	(16,215)	143,699
Other liabilities [2]	661,710	(63,051)	598,659
Equity			—
Accumulated other comprehensive loss [3]	(785,189)	(1,930)	(787,119)
Retained earnings	$252,689	$ 269,776	$522,465

(1) Includes cumulative adjustments related to cost to obtain contracts, non-current contract assets and deferred tax assets.

(2) Includes cumulative adjustments related to non-current deferred revenue and deferred tax liabilities.

(3) Includes cumulative adjustments related to CTA.

EQUINIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

The following tables summarize the effects of adopting Topic 606 on the unaudited condensed consolidated financial statement line items (in thousands, except per share data):

Balance Sheets	March 31, 2018	Adjustments	Balances without adoption of Topic 606
Other current assets	$247,175	$(9,542)	$237,633
Total current assets	2,943,484	(9,542)	2,933,942
Other assets	447,816	(184,962)	262,854
Total assets	$19,941,928	$(194,504)	$19,747,424
Accounts payable and accrued expenses	$686,612	$(1,032)	$685,580
Other current liabilities	144,965	14,038	159,003
Total current liabilities	1,246,475	13,006	1,259,481
Other liabilities	608,156	68,933	677,089
Total liabilities	12,801,377	81,939	12,883,316
Accumulated other comprehensive loss	(718,169)	(903)	(719,072)
Retained earnings	587,483	(275,540)	311,943
Total stockholders' equity	7,140,551	(276,443)	6,864,108
Total liabilities and stockholders' equity	$19,941,928	$(194,504)	$19,747,424

Statements of Operations	Three Months Ended March 31, 2018	Adjustments	Balance without adoption of Topic 606
Revenues	$1,215,877	$ (3,836)	$1,212,041
Sales and marketing	159,776	3,302	163,078
Total costs and operating expenses	990,002	3,302	993,304
Income from operations	225,875	(7,138)	218,737
Income before income taxes	79,653	(7,138)	72,515
Income tax expense	(16,759)	1,374	(15,385)
Net income	$62,894	$ (5,764)	$57,130
Basic EPS	$0.79	$ (0.07)	$0.72
Diluted EPS	$0.79	$ (0.07)	$0.72

Statements of Cash Flow	Three Months Ended March 31, 2018	Adjustments	Balance without adoption of Topic 606
Cash flows from operating activities:			
Net income (loss)	$62,894	$ (5,764)	$57,130
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Changes in operating assets and liabilities:			
Income taxes, net	(15,381)	(2,169)	(17,550)

Other assets	(6,694)	5,456	(1,238)
Other liabilities	(16,973)	2,477	(14,496)
Net cash provided by operating activities	$300,907	$ —	$300,907

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EQUINIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

The Company also adopted the following standards in the three months ended March 31, 2018, none of which had a material impact to the Company's condensed consolidated financial statements or financial statement disclosures:

Standards	Description	Effective Date and Adoption Consideration
ASU 2017-09 Compensation–Stock Compensation (Topic 718)	This ASU was issued primarily to provide clarity and reduce both diversity in practice and cost and complexity when applying the guidance in Topic 718 to a change to the terms or conditions of a share-based payment award. This ASU affects any entity that changes the terms or conditions of a share-based payment award. This ASU provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718.	January 1, 2018
ASU 2017-07 Compensation–Retirement Benefits (Topic 715)	This ASU was issued primarily to improve the presentation of net periodic pension cost and net periodic post-retirement benefit cost. This ASU requires that an employer reports the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. It also requires the other components of net periodic pension cost and net periodic post-retirement benefit cost to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. Additionally, only the service cost component is eligible for capitalization, when applicable.	January 1, 2018
ASU 2017-05 Other Income—Gains and Losses from the Derecognition of Non-Financial Assets (Subtopic 610-20)	This ASU is to clarify the scope of the non-financial asset guidance in Subtopic 610-20 and to add guidance for partial sales of non-financial assets. This ASU defines the term in substance non-financial asset and clarifies that non-financial assets within the scope of Subtopic 610-20 may include non-financial assets transferred within a legal entity to a counterparty. The ASU also provides guidance on the accounting for what often are referred to as partial sales of non-financial assets within the scope of Subtopic 610-20 and contributions of non-financial assets to a joint venture or other non-controlled investee.	January 1, 2018
ASU 2017-04 Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.	This ASU is to simplify the subsequent measurement of goodwill. The ASU eliminates step 2 from the goodwill impairment test and the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform step 2 of the goodwill impairment test. An entity	The Company elected to early adopt this ASU on a prospective basis, effective January 1, 2018.

	still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary.	
ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business	This ASU provides new guidance to assist entities with evaluating when a set of transferred assets and activities is a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation.	The Company adopted this standard on a prospective basis, effective January 1, 2018. The adoption of this standard may impact the accounting of future transactions.
ASU 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory	This ASU requires the recognition of the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.	January 1, 2018
ASU 2016-01 Financial Instruments- Overall (Subtopic 825-10)	This ASU requires all equity investments to be measured at fair value with changes in the fair value recognized through net income other than those accounted for under equity method of accounting or those that result in consolidation of the investees. The ASU also requires that an entity present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments.	The Company adopted this standard using the modified retrospective method, effective January 1, 2018 and recorded a net increase to retained earnings of $2.1 million.

2. Revenue

Revenue Recognition

Equinix derives more than 90% of its revenues from recurring revenue streams, consisting primarily of (1) colocation, which includes the licensing of cabinet space and power; (2) interconnection offerings, such as cross connects and Equinix Exchange ports; (3) managed infrastructure solutions and (4) other revenues consisting of rental income from tenants or subtenants. The remainder of the Company's revenues are from non-recurring revenue streams, such as installation revenues, professional services, contract settlements and equipment sales. Revenues are recognized when control of these products and services is transferred to its customers, in an amount that reflects the consideration it expects to be entitled to in exchange for the products and services. Revenues by service lines and geographic areas are included in segment information (see Note 11).

Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for IBX data center colocation customers. Non-recurring installation fees, although generally paid upfront upon installation, are deferred and recognized ratably over the contract term. Professional service fees and equipment sales are recognized in the period when the services were provided. For the contracts with customers that contain multiple performance obligations, the Company accounts for individual performance obligations separately if they are distinct or as a series of distinct obligations if the individual performance obligations meet the series criteria. Determining whether products and services are considered distinct performance obligations that should be accounted for separately versus together may require significant judgment. The transaction price is allocated to the separate performance obligation on a relative standalone selling price basis. The standalone selling price is determined based on overall pricing objectives, taking into consideration market conditions, geographic locations and other factors. Other judgments include determining if any variable consideration should be included in the total contract value of the arrangement such as price increases.

Revenue is generally recognized on a gross basis in accordance with the accounting standard related to reporting revenue on a gross basis as a principal versus on a net basis as an agent, as the Company is primarily responsible for fulfilling the contract, bears inventory risk and has discretion in establishing the price when selling to the customer. To the extent the Company does not meet the criteria for recognizing revenue on a gross basis, the Company records the revenue on a net basis. Revenue from contract settlements, when a customer wishes to terminate their contract early, is generally treated as a contract modification and recognized ratably over the remaining term of the contract, if any.

The Company guarantees certain service levels, such as uptime, as outlined in individual customer contracts. If these service levels are not achieved due to any failure of the physical infrastructure or offerings, or in the event of certain instances of damage to customer infrastructure within the Company's IBX data centers, the Company would reduce revenue for any credits or cash payments given to the customer. Historically, these credits and cash payments have generally not been significant.

As a result of certain customer agreements being priced in currencies different from the functional currencies of the parties involved, under applicable accounting rules, the Company is deemed to have foreign currency forward contracts embedded in these contracts. The Company assessed these embedded contracts and concluded them to be foreign currency embedded derivatives (see Note 5). These instruments are separated from their host contracts and held on the Company's condensed consolidated balance sheet at their fair value. The majority of these foreign currency embedded derivatives arise in certain of the Company's subsidiaries where the local currency is the subsidiary's functional currency and the customer contract is denominated in the U.S. dollar. Changes in their fair values are recognized within revenues in the Company's condensed consolidated statements of operations.

Contract Balances

The timing of revenue recognition, billings and cash collections result in accounts receivables, contract assets and deferred revenues. A receivable is recorded at the invoice amount, net of an allowance for doubtful account and is recognized in the period when the Company has transferred products or provided services to its customers and when its right to consideration is unconditional. Payment terms and conditions vary by contract type, although terms generally include a requirement of payment within 30 to 45 days. In instances where the timing of revenue recognition differs from the timing of invoicing, the Company has determined that the Company's contracts generally do not include a significant financing component. The Company assesses collectability based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. The Company generally does not request collateral from its customers although in certain cases the Company obtains a security interest in a customer’s equipment placed in its IBX data centers or obtains a deposit. The Company also maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments for which the Company had expected to collect the revenues. If the financial condition of the Company’s customers were to deteriorate or if they became

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insolvent, resulting in an impairment of their ability to make payments, greater allowances for doubtful accounts may be required. Management specifically analyzes accounts receivable and current economic news and trends, historical bad debts, customer concentrations, customer credit-worthiness and changes in customer payment terms when evaluating revenue recognition and the adequacy of the Company's reserves. Any amounts that were previously recognized as revenue and subsequently determined to be uncollectable are charged to bad debt expense included in sales and marketing expense in the condensed consolidated statements of operations. A specific bad debt reserve of up to the full amount of a particular invoice value is provided for certain problematic customer balances. An additional reserve is established for all other accounts based on the age of the invoices and an analysis of historical credits issued. Delinquent account balances are written off after management has determined that the likelihood of collection is not probable.

A contract asset exists when the Company has transferred products or provided services to its customers but customer payment is contingent upon satisfaction of additional performance obligation. Certain contracts include terms related to price arrangements such as price increases and free months. The Company recognizes revenues ratably over the contract term, which could potentially give rise to contract assets during certain periods of the contract term. Contract assets are recorded in other current assets and other assets in the condensed consolidated balance sheet.

Deferred revenue (a contract liability) is recognized when the Company has an unconditional right to a payment before it transfers goods or services to customers. Deferred revenue is included in other current liabilities and other liabilities, respectively, in the condensed consolidated balance sheet.

The opening and closing balances of the Company's receivables; contract asset, current; contract asset, non-current; deferred revenue, current; and deferred revenue, non-current (in thousands):

	Receivables	Contract asset, current	Contract asset, non-current	Deferred revenue, current	Deferred revenue, non-current
Beginning balances as of January 1, 2018 [1]	$ 576,313	$ 9,002	$ 16,186	$ 71,085	$ 53,101
Closing balances as of March 31, 2018	645,468	9,580	16,790	71,571	51,098
Increase/(decrease)	$ 69,155	$ 578	$ 604	$ 486	$ (2,003)

(1) Includes cumulative adjustments made to these accounts on January 1, 2018 from the adoption of Topic 606.

The difference between the opening and closing balances of the Company's contract assets and deferred revenues primarily results from the timing difference between the Company's performance obligation and the customer's payment. The amounts of revenue recognized during the three months ended March 31, 2018 from the opening deferred revenue balance was $38.9 million. For the period ended March 31, 2018, no impairment loss related to contract balances was recognized in the condensed consolidated statement of operations.

Contract Costs

Direct and indirect costs solely related to obtaining revenue contracts are capitalized as costs of obtaining a contract, when they are incremental and if they are expected to be recovered. Such costs consist primarily of commission fees and sales bonuses, as well as indirect related payroll costs. Contract costs are amortized over the estimated period of benefit on a straight-line basis. The Company elected to apply the practical expedient which allows the Company to expense contract costs when incurred, if the amortization period is one year or less.

The ending balance of net capitalized contract costs as of March 31, 2018 was $176.7 million, which were included in other assets in the condensed consolidated balance sheet. For the three months ended March 31, 2018, $17.5 million of contract costs was amortized, which were included in sales and marketing expense in the condensed consolidated statement of operations.

Remaining performance obligations

As of March 31, 2018, approximately $5.6 billion of total revenues and deferred installation revenues are expected to be recognized in future periods, the majority of which will be recognized over the next 24 months. While initial contract terms vary in length, substantially all contracts thereafter automatically renew in one-year increments. Included in the remaining performance obligations is either 1) remaining performance obligations under the initial contract terms or 2) remaining performance obligations

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related to contracts in the renewal period once the initial terms have lapsed. The remaining performance obligations also do not include variable consideration related to unsatisfied performance obligations such as the usage of metered power or any contracts that could be terminated without any significant penalties such as the majority of interconnection revenues. The remaining performance obligations include some leasing activities that are insignificant to the Company's total operations.
The Company elected to apply the practical expedient that allows the Company not to disclose the remaining performance obligations for variable consideration that is allocated to entirely unsatisfied performance obligations or to a wholly unsatisfied distinct good or service that forms part of a single obligation.
3. Earnings Per Share
The following table sets forth the computation of basic and diluted earnings per share ("EPS") for the periods presented (in thousands, except per share amounts):

	Three Months Ended March 31,	
	2018	2017
Net income	$62,894	$42,062
Weighted-average shares used to calculate basic EPS	79,241	72,773
Effect of dilutive securities:		
Employee equity awards	408	594
Weighted-average shares used to calculate diluted EPS	79,649	73,367
Basic EPS	$0.79	$0.58
Diluted EPS	$0.79	$0.57

The Company has excluded 238,000 and 93,000 shares of common stock related to employee equity awards in the diluted EPS calculation above for the three months ended March 31, 2018 and 2017, respectively, because their effect would be anti-dilutive.
4. Acquisitions
Acquisition of the Metronode group of companies
On April 18, 2018, the Company acquired all of the equity interests in the Metronode group of companies ("Metronode") from the Ontario Teachers' Pension Plan Board for a cash purchase price of A$1.035 billion or approximately $805.6 million at the exchange rate in effect on April 18, 2018 (the "Metronode Acquisition"). Metronode owned and operated 10 data centers in six metro areas in Australia. The acquisition supports the Company's ongoing global expansion to meet customer demand in the Asia-Pacific region. Metronode's operating results will be reported in the Asia-Pacific region following the date of acquisition. The Metronode Acquisition constitutes a business under the accounting standard for business combinations and, therefore, will be accounted for as a business combination using the acquisition method of accounting. Goodwill from the acquisition of Metronode is not expected to be deductible for local tax purposes and is attributable to the Company's Asia-Pacific region. The valuation of assets acquired and liabilities assumed are still being appraised by a third-party and as such, the purchase price allocation is not yet complete.
Acquisition of Infomart Dallas
On April 2, 2018, the Company completed the acquisition of Infomart Dallas, including its operations and tenants, from ASB Real Estate Investments (the "Infomart Dallas Acquisition"), for a purchase price of approximately $781.0 million. The purchase price was comprised of approximately $31.0 million in cash, subject to customary adjustments, and $750.0 million aggregate principal amount of 5.000% senior unsecured notes in five new series with due dates from April 2019 to April 2021, with each series consisting of $150.0 million principal amount. The acquisition of this highly interconnected facility and tenants adds to the Company's global platform and secures the ability to further

expand in the Dallas market with future development.

Infomart Dallas' operating results will be reported in the Americas region following the date of acquisition. The Infomart Dallas Acquisition constitutes a business under the accounting standard for business combinations and, therefore, will be accounted for as a business combination using the acquisition method of accounting. Goodwill from the acquisition of Infomart Dallas is not expected to be deductible for local tax purposes and is attributable to the Company's Americas region. The valuation of assets acquired and liabilities assumed are still being appraised by a third-party and as such, the purchase price allocation is not yet complete.

Certain Verizon Data Center Assets Acquisition

On May 1, 2017, the Company completed the acquisition of certain colocation business from Verizon consisting of 29 data center buildings located in the United States, Brazil and Colombia, for a cash purchase price of approximately $3.6 billion (the "Verizon Data Center Acquisition"). The addition of these facilities and customers adds to the Company's global platform, increases interconnections and assists with the Company's penetration of the enterprise and strategic markets, including government and energy. The Company funded the Verizon Data Center Acquisition with proceeds from debt and equity financings, which closed in January and March 2017.

In connection with the Verizon Data Center Acquisition, the Company entered into a commitment letter (the "Commitment Letter"), dated December 6, 2016, pursuant to which a group of lenders committed to provide a senior unsecured bridge facility in an aggregate principal amount of $2.0 billion for the purposes of funding a portion of the cash consideration for the Verizon Data Center Acquisition. Following the completion of the debt and equity financings associated with the Verizon Data Center Acquisition in March 2017, the Company terminated the Commitment Letter. The Company paid $10.0 million of commitment fees associated with the Commitment Letter and recorded $7.8 million to interest expense in the condensed consolidated statement of operations for the three months ended March 31, 2017.

The Company included the Verizon Data Center Acquisition's results of operations from May 1, 2017 in its condensed consolidated statements of operations and the estimated fair value of assets acquired and liabilities assumed in its condensed consolidated balance sheets beginning May 1, 2017. Acquisition costs incurred for the three months ended March 31, 2018 and 2017 were not significant to the Company's condensed consolidated statements of operations.

Purchase Price Allocation

The Verizon Data Center Acquisition constitutes a business under the accounting standard for business combinations and, therefore, was accounted for as a business combination using the acquisition method of accounting. Under the acquisition method of accounting, the total purchase price is allocated to the assets acquired and liabilities assumed measured at fair value on the date of acquisition. During the three months ended March 31, 2018, the Company has completed the detailed valuation analysis to derive the fair value of assets acquired and liabilities assumed and has updated the final allocation of purchase price from provisional amounts reported as of June 30, 2017, which primarily resulted in a decrease in intangible assets of $9.0 million and an increase in goodwill of $7.7 million. The changes in fair value of acquired assets and liabilities assumed did not have a significant impact on the Company’s results of operations for any reporting periods prior to March 31, 2018.

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The final purchase price allocation is as follows (in thousands):

	Certain Verizon Data Center Assets
Cash and cash equivalents	$ 1,073
Accounts receivable	2,019
Other current assets	7,319
Property, plant, and equipment	840,335
Intangible assets [1]	1,693,900
Goodwill	1,095,262
Total assets acquired	3,639,908
Accounts payable and accrued liabilities	(1,725)
Other current liabilities	(2,020)
Capital lease and other financing obligations	(17,659)
Deferred tax liabilities	(18,129)
Other liabilities	(5,689)
Net assets acquired	$ 3,594,686

(1) The nature of the intangible assets acquired is customer relationships with an estimated useful life of 15 years. Included in this amount is a customer relationship intangible asset for Verizon totaling $245.3 million. Pursuant to the acquisition agreement, the Company formalized agreements to provide pre-existing space and services to Verizon at the acquired data centers.

The fair value of customer relationships was estimated by applying an income approach. The fair value was determined by calculating the present value of estimated future operating cash flows generated from existing customers less costs to realize the revenue. The Company applied discount rates ranging from 7.7% to 12.2%, which reflected the nature of the assets as they relate to the risk and uncertainty of the estimated future operating cash flows. Other significant assumptions used to estimate the fair value of customer relationships include projected revenue growth, customer attrition rates, sales and marketing expenses and operating margins. The fair value measurements were based on significant inputs that are not observable in the market and thus represent Level 3 measurements as defined in the accounting standard for fair value measurements.

The fair value of property, plant and equipment was estimated by applying the cost approach. The cost approach is to use the replacement or reproduction cost as an indicator of fair value. The premise of the cost approach is that a market participant would pay no more for an asset than the amount for which the asset could be replaced or reproduced. The key assumptions of the cost approach include replacement cost new, physical deterioration, functional and economic obsolescence, economic useful life, remaining useful life, age and effective age.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired and liabilities assumed. The goodwill is attributable to the workforce of the acquired business and the projected revenue increase expected to arise from future customers after the Verizon Data Center Acquisition. The goodwill is not expected to be deductible for local tax purposes. Goodwill recorded as a result of the Verizon Data Center Acquisition was attributable to the Company's Americas region. For the three months ended March 31, 2018, the Company's results of operations include the Verizon Data Center Acquisition's revenues of $134.8 million and net income from operations of $35.8 million.

Other 2017 Acquisitions

In addition to the Verizon Data Center Acquisition, the Company completed three other acquisitions during 2017. Acquisition costs incurred for these acquisitions during the three months ended March 31, 2018 and 2017 were not significant to the Company's condensed consolidated statements of operations.

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A summary of the allocation of total purchase consideration is presented as follows (in thousands):

	Itconic	Zenium data center	IO UK's data center
Cash and cash equivalents	$15,659	$692	$1,388
Accounts receivable	16,429	198	7
Other current assets	1,885	6,430	1,082
Property, plant, and equipment	65,356	58,931	40,251
Intangible assets	101,755	7,900	6,252
Goodwill	126,855	21,834	15,804
Deferred tax assets	—	—	6,714
Other assets	4,025	313	3,396
Total assets acquired	331,964	96,298	74,894
Accounts payable and accrued liabilities	(15,847)	(1,012)	(439)
Other current liabilities	(12,374)	(451)	(168)
Capital lease and other financing obligations	(30,666)	—	(33,091)
Loans payable	(3,253)	—	(4,067)
Deferred tax liabilities	(3,198)	(2,227)	—
Other liabilities	(7,515)	(614)	(828)
Net assets acquired	$259,111	$91,994	$36,301

On October 9, 2017, the Company completed the acquisition of Itconic for a cash purchase price of €220.5 million or $259.1 million at the exchange rate in effect on October 9, 2017. Itconic was a data center provider in Spain and Portugal, and also included CloudMas, an Itconic subsidiary which was focused on supporting enterprise adoption and use of cloud services. The acquisition included five data centers in four metro areas, with two located in Madrid and one each in Barcelona, Seville and Lisbon. Itconic's operating results have been reported in the EMEA region following the date of acquisition.

The nature of the intangible assets acquired from the Itconic acquisition is customer relationships with an estimated useful life of 15 years. The fair value of customer relationships was estimated by applying an income approach, by calculating the present value of estimated future operating cash flows generated from existing customers less costs to realize the revenue. The Company applied discount rate of 16.0%, which reflects the risk and uncertainty of the estimated future operating cash flows. Other significant assumptions include projected revenue growth, customer attrition rates and operating margins. The fair value measurements were based on significant inputs that are not observable in the market and thus represent Level 3 measurements as defined in the accounting standard for fair value measurements. Goodwill is attributable to the workforce of the acquired business and the projected revenue increase from future customers expected to arise after the acquisition.

On October 6, 2017, the Company acquired Zenium's data center business in Istanbul for a cash payment of approximately $92.0 million. The acquired facility located in Istanbul, Turkey has been renamed as the Istanbul 2 ("IL2") data center. IL2's operating results have been reported in the EMEA region following the date of acquisition. The nature of the intangible assets acquired from this acquisition is customer relationships with an estimated useful life of 15 years.

As of March 31, 2018, the Company has not completed the detailed valuation analysis of Itconic or the Zenium data center to derive the fair value of the following items including, but not limited to: property, plant and equipment, intangible assets and deferred taxes; therefore, the allocation of the purchase price to assets acquired and liabilities assumed is based on provisional estimates and is subject to continuing management analysis. As of March 31, 2018, the Company has updated the preliminary allocation of purchase price for Itconic and Zenium data center from the provisional amounts reported as of December 31, 2017. The adjustments made during the three months ended March 31, 2018 primarily resulted in an increase in property, plant and equipment of $5.2 million and a corresponding decrease in other assets of $5.2 million for Zenium data center acquisition, while the adjustments made for Itconic were not significant. The changes in fair value of acquired assets and liabilities assumed did not have a significant impact on the Company’s results of operations for the three months ended March 31, 2018.

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On February 3, 2017, the Company acquired IO UK's data center operating business in Slough, United Kingdom, for a cash payment of £29.1 million or approximately $36.3 million at the exchange rate in effect on February 3, 2017 ("IO Acquisition"). The acquired facility was renamed London 10 ("LD10") data center. LD10's operating results have been reported in the EMEA region following the date of acquisition. The nature of the intangible assets acquired from this acquisition is customer relationships with an estimated useful life of 10 years. As of December 31, 2017, the Company has finalized the allocation of purchase price for the IO Acquisition from the provisional amounts first reported as of March 31, 2017 and the adjustments made during the year ended December 31, 2017 were not significant. The changes in fair value of acquired assets and liabilities assumed did not have a significant impact on the Company’s results of operations for any reporting periods prior to December 31, 2017.

Goodwill from the acquisitions of Itconic, the Zenium data center and IO UK's data center is not deductible for local tax purposes and is attributable to the Company's EMEA region. For the three months ended March 31, 2017, the incremental revenues and net loss recorded from the IO Acquisition were not significant to the Company's results of operations. For the three months ended March 31, 2018, the Company's results of operations include $19.7 million of revenues from the combined operations of Itconic, the Zenium data center and IO UK’s data center and an insignificant net loss from operations.

Unaudited Pro Forma Combined Financial Information

The following unaudited pro forma combined financial information has been prepared by the Company using the acquisition method of accounting to give effect to the Verizon Data Center Acquisition as though it occurred on January 1, 2017. The incremental results of operations from the other acquisitions are not significant and are therefore not reflected in the pro forma combined results of operations.

The Company completed the Verizon Data Center Acquisition on May 1, 2017. The unaudited pro forma combined financial information for the three months ended March 31, 2017 combine the actual results of the Company and the actual Verizon Data Center Acquisition operating results for the period prior to the acquisition date and reflect certain adjustments, such as additional depreciation, amortization and interest expense on assets and liabilities acquired and acquisition financings.

The Company and Verizon entered into agreements at the closing of the Verizon Data Center Acquisition pursuant to which the Company will provide space and services to Verizon at the acquired data centers. These arrangements are not reflected in the unaudited pro forma combined financial information.

The unaudited pro forma combined financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations that would have actually been reported had the acquisition occurred on the above dates, nor is it necessarily indicative of the future results of operations of the combined company.

The following table sets forth the unaudited pro forma combined results of operations for the three months ended March 31, 2017 (in thousands, except per share amounts):

	Three months ended March 31, 2017
Revenues	$1,055,805
Net income from operations	41,958
Basic EPS	0.54
Diluted EPS	0.54

5. Derivatives and Hedging Activities

Derivatives Designated as Hedging Instruments

Net Investment Hedges. The Company is exposed to the impact of foreign exchange rate fluctuations on its investments in foreign subsidiaries whose functional currencies are other than the U.S. dollar. In order to mitigate the impact of foreign currency exchange rates, the Company has entered into various foreign currency loans which are designated as hedges against the Company's net investment in foreign subsidiaries. As of March 31, 2018 and December 31, 2017, the total principal amount of foreign currency loans, which were designated as net investment hedges, were $4,102.7 million and $3,149.5 million, respectively. The Company also uses foreign exchange forward contracts to hedge against the effect of foreign exchange rate fluctuations on a portion of its net investment in the foreign subsidiaries. For a net investment hedge, changes in the fair value of the hedging

instrument designated as a net investment hedge, except the ineffective portion and forward points, are recorded as a component of accumulated other comprehensive income (loss) in the condensed consolidated balance sheet.
The Company recorded pre-tax net foreign exchange losses of $74.3 million and $28.6 million in other comprehensive income (loss) for the three months ended March 31, 2018 and 2017, respectively. The Company recorded no ineffectiveness from its net investment hedges for the three months ended March 31, 2018 and 2017.
Cash Flow Hedges. The Company hedges its foreign currency translation exposure for forecasted revenues and expenses in its EMEA region between the U.S. dollar and the British Pound, Euro, Swedish Krona and Swiss Franc. The foreign currency forward and option contracts that the Company uses from time to time to hedge this exposure are designated as cash flow hedges under the accounting standard for derivatives and hedging.
The Company enters into intercompany hedging instruments ("intercompany derivatives") with a wholly-owned subsidiary of the Company in order to hedge certain forecasted revenues and expenses denominated in currencies other than the U.S. dollar. Simultaneously, the Company enters into derivative contracts with unrelated third parties to externally hedge the net exposure created by such intercompany derivatives.
The following disclosure is prepared on a consolidated basis. Assets and liabilities resulting from intercompany derivatives have been eliminated in consolidation. As of March 31, 2018, the Company's cash flow hedge instruments had maturity dates ranging from April 2018 to December 2019 as follows (in thousands):

	Notional Amount	Fair Value [1]	Accumulated Other Comprehensive Income (Loss) [2] [3]
Derivative assets	$136,820	$ 1,207	$ 815
Derivative liabilities	457,124	(34,097)	(38,512)
Total	$593,944	$ (32,890)	$ (37,697)

(1) All derivatives related to cash flow hedges are included in the condensed consolidated balance sheets within other current assets, other assets, other current liabilities and other liabilities.
(2) Included in the condensed consolidated balance sheets within accumulated other comprehensive income (loss).
(3) The Company recorded a net loss of $34.0 million within accumulated other comprehensive income (loss) relating to cash flow hedges that will be reclassified to revenues and expenses as they mature in the next 12 months.

As of December 31, 2017, the Company's cash flow hedge instruments had maturity dates ranging from January 2018 to October 2019 as follows (in thousands):

	Notional Amount	Fair Value [1]	Accumulated Other Comprehensive Income (Loss) [2] [3]
Derivative assets	$72,262	$ 2,379	$ 2,055
Derivative liabilities	440,637	(29,777)	(34,311)
Total	$512,899	$ (27,398)	$ (32,256)

(1) All derivatives related to cash flow hedges are included in the condensed consolidated balance sheets within other current assets, other assets, other current liabilities and other liabilities.
(2) Included in the condensed consolidated balance sheets within accumulated other comprehensive income (loss).
(3) The Company recorded a net loss of $26.7 million within accumulated other comprehensive income (loss) relating to cash flow hedges that will be reclassified to revenues and expenses as they mature over the next 12 months.

During the three months ended March 31, 2018 and 2017, the ineffective and excluded portions of cash flow hedges recognized in other income (expense) were not significant. During the three months ended March 31, 2018, the amount of net losses reclassified from accumulated other comprehensive income (loss) to revenues was $18.4 million and the amount of net gains reclassified from accumulated other comprehensive income (loss) to operating expenses was $9.3 million. During the three months ended March 31, 2017, the amount of net gains reclassified from accumulated other comprehensive income (loss) to revenues was $17.7 million and the amount of net losses reclassified from accumulated other comprehensive income (loss) to operating expenses was $9.0 million.

Derivatives Not Designated as Hedging Instruments

Embedded Derivatives. The Company is deemed to have foreign currency forward contracts embedded in certain of the Company’s customer agreements that are priced in currencies different from the functional or local currencies of the parties involved. These embedded derivatives are separated from their host contracts and carried on the Company’s balance sheet at their fair value. The majority of these embedded derivatives arise as a result of the Company’s foreign subsidiaries pricing their customer contracts in the U.S. dollar. Gains and losses on these embedded derivatives are included within revenues in the Company’s condensed consolidated statements of operations. During the three months ended March 31, 2018 gains (losses) associated with these embedded derivatives were not significant. During the three months ended March 31, 2017, the loss associated with these embedded derivatives was $5.0 million.

Economic Hedges of Embedded Derivatives. The Company uses foreign currency forward contracts to help manage the foreign exchange risk associated with the Company’s customer agreements that are priced in currencies different from the functional or local currencies of the parties involved ("economic hedges of embedded derivatives"). Foreign currency forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date. Gains and losses on these contracts are included in revenues along with gains and losses of the related embedded derivatives. The Company entered into various economic hedges of embedded derivatives during the three months ended March 31, 2018 and 2017. During the three months ended March 31, 2018 and 2017, the gains (losses) associated with these contracts were not significant.

Foreign Currency Forward and Option Contracts. The Company also uses foreign currency forward and option contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities. As a result of foreign currency fluctuations, the U.S. dollar equivalent values of its foreign currency-denominated assets and liabilities change. Gains and losses on these contracts are included in other income (expense), on a net basis, along with the foreign currency gains and losses of the related foreign currency-denominated assets and liabilities associated with these foreign currency forward contracts. The Company entered into various foreign currency forward and option contracts during the three months ended March 31, 2018 and 2017. During the three months ended March 31, 2018, the gains (losses) associated with these contracts were not significant. During the three months ended March 31, 2017, the Company recognized net losses of $14.7 million associated with these contracts.

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Offsetting Derivative Assets and Liabilities

The following table presents the fair value of derivative instruments recognized in the Company's condensed consolidated balance sheets as of March 31, 2018 (in thousands):

	Gross Amounts	Gross Amounts Offset in the Consolidated Balance Sheet	Net Consolidated Balance Sheet Amounts[1]	Gross Amounts not Offset in the Consolidated Balance Sheet[2]	Net
Assets:					
Designated as hedging instruments:					
Foreign currency forward contracts designated as cash flow hedges	$ 1,207	$ —	$ 1,207	$ (1,207)	$ —
Not designated as hedging instruments:					
Embedded derivatives	3,911	—	3,911	—	3,911
Economic hedges of embedded derivatives	403	—	403	—	403
Foreign currency forward contracts	3,464	—	3,464	—	3,464
	7,778	—	7,778	—	7,778
Additional netting benefit	—	—	—	(3,867)	(3,867)
	$ 8,985	$ —	$ 8,985	$ (5,074)	$ 3,911
Liabilities:					
Designated as hedging instruments:					
Foreign currency forward contracts designated as cash flow hedges	$ 34,097	$ —	$ 34,097	$ (1,207)	$ 32,890
Not designated as hedging instruments:					
Embedded derivatives	4,703	—	4,703	—	4,703
Economic hedges of embedded derivatives	18	—	18	—	18
Foreign currency forward contracts	1,166	—	1,166	—	1,166
	5,887	—	5,887	—	5,887
Additional netting benefit	—	—	—	(3,867)	(3,867)
	$ 39,984	$ —	$ 39,984	$ (5,074)	$ 34,910

(1) As presented in the Company's condensed consolidated balance sheets within other current assets, other assets, other current liabilities and other liabilities.

(2) The Company enters into master netting agreements with its counterparties for transactions other than embedded derivatives to mitigate credit risk exposure to any single counterparty. Master netting agreements allow for individual derivative contracts with a single counterparty to offset in the event of default. For presentation on the condensed consolidated balance sheets, the Company does not offset fair value amounts recognized for derivative instruments under master netting arrangements.

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The following table presents the fair value of derivative instruments recognized in the Company's condensed consolidated balance sheets as of December 31, 2017 (in thousands):

	Gross Amounts	Gross Amounts Offset in the Consolidated Balance Sheet	Net Consolidated Balance Sheet Amounts[1]	Gross Amounts not Offset in the Consolidated Balance Sheet[2]	Net
Assets:					
Designated as hedging instruments:					
Foreign currency forward contracts designated as cash flow hedges	$ 2,379	$ —	$ 2,379	$ (2,379)	$ —
Not designated as hedging instruments:					
Embedded derivatives	5,076	—	5,076	—	5,076
Economic hedges of embedded derivatives	325	—	325	—	325
Foreign currency forward contracts	505	—	505	(340)	165
	5,906	—	5,906	(340)	5,566
Additional netting benefit	—	—	—	(490)	(490)
	$ 8,285	$ —	$ 8,285	$ (3,209)	$ 5,076
Liabilities:					
Designated as hedging instruments:					
Foreign currency forward contracts designated as cash flow hedges	$ 29,777	$ —	$ 29,777	$ (2,379)	$ 27,398
Not designated as hedging instruments:					
Embedded derivatives	3,503	—	3,503	—	3,503
Economic hedges of embedded derivatives	20	—	20	—	20
Foreign currency forward contracts	7,547	—	7,547	(340)	7,207
	11,070	—	11,070	(340)	10,730
Additional netting benefit	—	—	—	(490)	(490)
	$ 40,847	$ —	$ 40,847	$ (3,209)	$ 37,638

(1) As presented in the Company's condensed consolidated balance sheets within other current assets, other assets, other current liabilities and other liabilities.

(2) The Company enters into master netting agreements with its counterparties for transactions other than embedded derivatives to mitigate credit risk exposure to any single counterparty. Master netting agreements allow for individual derivative contracts with a single counterparty to offset in the event of default. For presentation on the condensed consolidated balance sheets, the Company does not offset fair value amounts recognized for derivative instruments under master netting arrangements.

6. Fair Value Measurements

Fair value estimates are made as of a specific point in time based on methods using the market approach valuation method which uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities or other valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors.

Cash, Cash Equivalents and Investments. The fair value of the Company's investments in money market funds approximates their face value. Such instruments are included in cash equivalents. The Company’s money market funds and publicly traded equity securities are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices for identical instruments in active markets. The fair value of the Company's other investments, including certificates of deposit, approximates their face value. The fair value of these investments is priced based on the quoted market price for similar instruments or nonbinding market prices that are corroborated by observable market data. Such instruments are classified within Level 2 of the fair value hierarchy. The Company determines the fair values of its Level 2 investments by using inputs such as actual trade data, benchmark yields, broker/dealer quotes, and other similar data, which are obtained from quoted market prices, custody bank, third-party pricing vendors, or other sources. The Company uses such pricing data as the primary input to make its assessments and determinations as to the ultimate valuation of its investment portfolio and has not made, during the periods presented, any material adjustments to such inputs. The Company is responsible for its condensed consolidated financial statements and underlying estimates.

The Company uses the specific identification method in computing realized gains and losses. Realized gains and losses on the investments are included within other income (expense) in the Company’s condensed consolidated statements of operations. The Company's investments in publicly traded equity securities are carried at fair value. Subsequent to the adoption of ASU 2016-01 in the three months ended March 31, 2018, unrealized gains and losses on publicly traded equity securities are reported within other income (expense) in the Company’s condensed consolidated statements of operations. Prior to the adoption of ASU 2016-01, unrealized gains and losses on publicly traded equity securities were reported in stockholders’ equity as a component of other comprehensive income or loss. Upon adoption of ASU 2016-01, the Company recorded a net cumulative effect increase of $2.1 million to retained earnings.

Derivative Assets and Liabilities. For derivatives, the Company uses forward contract and option models employing market observable inputs, such as spot currency rates and forward points with adjustments made to these values utilizing published credit default swap rates of its foreign exchange trading counterparties and other comparable companies. The Company has determined that the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, therefore the derivatives are categorized as Level 2.

During the three months ended March 31, 2018 and year ended December 31, 2017, the Company did not have any nonfinancial assets or liabilities measured at fair value on a recurring basis.

EQUINIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(Unaudited)

The Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 were as follows (in thousands):

	Fair Value at March 31, 2018	Fair Value Measurement Using	
		Level 1	Level 2
Assets:			
Cash	$1,639,586	$1,639,586	$—
Money market and deposit accounts	384,222	384,222	—
Publicly traded equity securities	6,755	6,755	—
Certificates of deposit	32,451	—	32,451
Derivative instruments [(1)]	8,985	—	8,985
Total	$2,071,999	$2,030,563	$41,436
Liabilities:			
Derivative instruments [(1)]	$39,984	$—	$39,984
Total	$39,984	$—	$39,984

(1) Includes both foreign currency embedded derivatives and foreign currency forward contracts. Amounts are included within other current assets, other assets, others current liabilities and other liabilities in the Company’s accompanying condensed consolidated balance sheet.

The Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 were as follows (in thousands):

	Fair Value at December 31, 2017	Fair Value Measurement Using	
		Level 1	Level 2
Assets:			
Cash	$ 985,382	$985,382	$—
Money market and deposit accounts	427,135	427,135	—
Publicly traded equity securities	6,163	6,163	—
Certificates of deposit	31,351	—	31,351
Derivative instruments [(1)]	8,285	—	8,285
Total	$ 1,458,316	$1,418,680	$39,636
Liabilities:			
Derivative instruments [(1)]	$ 40,847	$—	$40,847
Total	$ 40,847	$—	$40,847

(1) Includes both foreign currency embedded derivatives and foreign currency forward contracts. Amounts are included within other current assets, other assets, other current liabilities and other liabilities in the Company's accompanying condensed consolidated balance sheet.

The Company did not have any Level 3 financial assets or financial liabilities as of March 31, 2018 and December 31, 2017.

7. Leases

Capital Lease and Other Financing Obligations

Stockholm 2 ("SK2") Data Center

In March 2018, the Company acquired the land and building for the SK2 IBX data center for cash consideration of SEK457.9 million or approximately $54.9 million at the exchange rate in effect on March 31, 2018. The Company had previously accounted for SK2 as a build-to-suit arrangement. As a result of the purchase, the prior arrangement was effectively terminated and the financing obligation was settled in full. The Company settled the financing obligation of the SK2 data center for SEK234.5 million or approximately $28.1 million and recognized a loss on debt extinguishment of SEK170.5 million or approximately $20.4 million at the exchange rate in effect on March 31, 2018.

Tokyo 11 ("TY11") Data Center

In February 2018, the Company entered into a lease agreement for TY 11 IBX data center. Pursuant to the accounting standard for leases, the Company assessed the lease classification of the TY11 lease and determined that the lease should be accounted for as a capital lease. As of March 31, 2018, the Company recorded a capital lease obligation totaling approximately ¥2,348.5 million, or approximately $22.1 million at the exchange rate in effect on that date. The lease has a term of 30 years through February 2048.

Maturities of Capital Lease and Other Financing Obligations

The Company's capital lease and other financing obligations are summarized as follows (in thousands):

	Capital Lease Obligations	Other Financing Obligations [1]	Total
2018 (9 months remaining)	$ 80,243	$ 74,287	$154,530
2019	97,762	85,865	183,627
2020	97,814		