EQUINIX INC
Form 10-Q
November 03, 2017

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 September 30, 2017
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 November 2, 2017 was 78,233,697.

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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)

	September 30, 2017 (Unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$1,599,988	$748,476
Short-term investments	29,572	3,409
Accounts receivable, net	597,242	396,245
Other current assets	217,006	319,396
Total current assets	2,443,808	1,467,526
Long-term investments	10,885	10,042
Property, plant and equipment, net	9,006,171	7,199,210
Goodwill	4,226,490	2,986,064
Intangible assets, net	2,335,175	719,231
Other assets	285,967	226,298
Total assets	$18,308,496	$12,608,371
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$657,229	$581,739
Accrued property, plant and equipment	205,444	144,842
Current portion of capital lease and other financing obligations	60,201	101,046
Current portion of mortgage and loans payable	84,455	67,928
Other current liabilities	149,295	133,140
Total current liabilities	1,156,624	1,028,695
Capital lease and other financing obligations, less current portion	1,612,188	1,410,742
Mortgage and loans payable, less current portion	2,551,510	1,369,087
Senior notes	5,717,276	3,810,770
Other liabilities	728,681	623,248
Total liabilities	11,766,279	8,242,542
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, $0.001 par value per share: 300,000,000 shares authorized; 78,233,670 and 71,409,015 shares outstanding	79	72
Additional paid-in capital	9,718,580	7,413,519
Treasury stock, at cost; 402,575 and 408,415 shares	(146,369)	(147,559)
Accumulated dividends	(2,433,600)	(1,969,645)
Accumulated other comprehensive loss	(783,947)	(949,142)
Retained earnings	187,474	18,584
Total stockholders' equity	6,542,217	4,365,829
Total liabilities and stockholders' equity	$18,308,496	$12,608,371

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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited)			
Revenues	$1,152,261	$924,676	$3,168,207	$2,669,342
Costs and operating expenses:				
Cost of revenues	582,360	470,302	1,573,524	1,354,949
Sales and marketing	157,619	110,936	428,112	325,358
General and administrative	185,336	181,239	558,090	515,605
Acquisition costs	2,083	12,505	31,510	64,635
Impairment charges	—	7,698	—	7,698
Gains on asset sales	—	(27,945)	—	(33,187)
Total costs and operating expenses	927,398	754,735	2,591,236	2,235,058
Income from continuing operations	224,863	169,941	576,971	434,284
Interest income	2,291	762	9,820	2,528
Interest expense	(121,828)	(92,200)	(352,554)	(293,395)
Other income (expense)	(1,076)	2,938	545	(56,217)
Loss on debt extinguishment	(22,156)	(9,894)	(42,103)	(10,499)
Income from continuing operations before income taxes	82,094	71,547	192,679	76,701
Income tax expense	(2,194)	(22,778)	(24,912)	(25,957)
Net income from continuing operations	79,900	48,769	167,767	50,744
Net income from discontinued operations, net of tax	—	2,681	—	14,306
Net income	$79,900	$51,450	$167,767	$65,050
Earnings per share ("EPS"):				
Basic EPS from continuing operations	$1.02	$0.69	$2.20	$0.73
Basic EPS from discontinued operations	—	0.04	—	0.21
Basic EPS	$1.02	$0.73	$2.20	$0.94
Weighted-average shares	78,055	71,190	76,283	69,689
Diluted EPS from continuing operations	$1.02	$0.68	$2.18	$0.72
Diluted EPS from discontinued operations	—	0.04	—	0.20
Diluted EPS	$1.02	$0.72	$2.18	$0.92
Weighted-average shares for diluted EPS	78,719	71,908	76,948	70,389
Cash dividends declared per common share	$2.00	$1.75	$6.00	$5.25

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(Unaudited)			
Net income	$79,900	$51,450	$167,767	$65,050
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment ("CTA") gain (loss)	100,909	(32,603)	408,830	(215,065)
Net investment hedge CTA gain (loss)	(60,723)	(34,721)	(191,121)	4,163
Unrealized gain (loss) on available-for-sale securities, net of tax effects of $(108), $(693), $(178) and $(1,113)	245	1,487	(85)	2,382
Unrealized gain (loss) on cash flow hedges, net of tax effects of $4,379, $1,384, $17,670 and $(1,263)	(13,070)	(4,153)	(52,468)	3,789
Net actuarial gain on defined benefit plans, net of tax effects of $(4), $(3), $(14) and $(9)	13	7	39	21
Total other comprehensive income (loss), net of tax	27,374	(69,983)	165,195	(204,710)
Comprehensive income (loss), net of tax	$107,274	$(18,533)	$332,962	$(139,660)

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2017	2016
	(Unaudited)	
Cash flows from operating activities:		
Net income	$167,767	$65,050
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	622,135	534,026
Stock-based compensation	129,602	115,730
Amortization of intangible assets	128,068	93,384
Amortization of debt issuance costs and debt discounts	20,100	13,709
Provision for allowance for doubtful accounts	6,889	6,541
Impairment charges	—	7,698
Gain on asset sales	—	(33,187)
Gain on sale of discontinued operations	—	(4,242)
Loss on debt extinguishment	42,103	10,499
Other items	3,437	14,843
Changes in operating assets and liabilities:		
Accounts receivable	(202,430)	(72,807)
Income taxes, net	(53,608)	1,021
Accounts payable and accrued expenses	44,952	(11,526)
Other assets and liabilities	35,339	(22,004)
Net cash provided by operating activities	944,354	718,735
Cash flows from investing activities:		
Purchases of investments	(57,926)	(31,736)
Sales and maturities of investments	32,867	41,796
Business acquisitions, net of cash and restricted cash acquired	(3,628,526)	(1,767,227)
Purchases of real estate	(64,964)	(28,118)
Purchases of other property, plant and equipment	(946,048)	(727,044)
Proceeds from sale of assets	47,767	828,197
Net cash used in investing activities	(4,616,830)	(1,684,132)
Cash flows from financing activities:		
Proceeds from employee equity awards	41,625	34,143
Payment of dividends	(463,914)	(374,151)
Proceeds from public offering of common stock, net of offering costs	2,126,341	—
Proceeds from senior notes	2,449,700	—
Proceeds from loans payable	1,059,800	710,404
Repayments of capital lease and other financing obligations	(60,252)	(100,863)
Repayments of convertible debt, mortgage, and loans payable	(63,520)	(986,465)
Repayment of senior notes	(500,000)	—
Debt extinguishment costs	(23,020)	(10,181)
Debt issuance costs	(56,886)	(11,751)
Other financing activities	(900)	—
Net cash provided by (used) in financing activities	4,508,974	(738,864)
Effect of foreign currency exchange rates on cash, cash equivalents and restricted cash	26,450	13,130
Change in cash balances included in assets held for sale	—	(3,755)

Net increase (decrease) in cash, cash equivalents and restricted cash	862,948	(1,694,886)
Cash, cash equivalents and restricted cash at beginning of period	773,247	2,718,427
Cash, cash equivalents and restricted cash at end of period	$1,636,195	$1,023,541

Cash and cash equivalents	$1,599,988	$987,915
Current portion of restricted cash included in other current assets	25,079	25,305
Non-current portion of restricted cash included in other assets	11,128	10,321
Total cash, cash equivalents, and restricted cash shown in the condensed consolidated statement of cash flows	$1,636,195	$1,023,541

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, 2016 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 27, 2017. 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 certain Verizon data center assets from May 1, 2017, the IO UK data center operating business from February 3, 2017, the Paris International Business Exchange™ ("IBX") data center from August 1, 2016 and Telecity Group plc ("TelecityGroup") from January 15, 2016. All significant intercompany accounts and transactions have been eliminated in consolidation.

Income Taxes

The Company began operating as a real estate investment trust for U.S. federal income tax purposes ("REIT") effective January 1, 2015, and thereafter received a favorable private letter ruling ("PLR") from the U.S. Internal Revenue Service ("IRS") that validated the Company's position with respect to specified REIT compliance matters. As a result, the Company may deduct the distributions made to its stockholders from taxable income generated by the operations of the Company parent and its qualified REIT subsidiaries ("QRSs"). The Company's dividends paid deduction generally eliminates the U.S. taxable income of the Company parent 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 12.9% and 33.8% for the nine months ended September 30, 2017 and 2016, respectively. The decrease in effective tax rate is primarily driven by the realization of unrecognized tax benefits in the current period related to the Company's tax positions as a result of the expiration of a statute of limitations.

Assets Held for Sale and Discontinued Operations

Assets and liabilities to be disposed of that meet all of the criteria to be classified as held for sale as set forth in the accounting standard for impairment or disposal of long-lived assets are reported at the lower of their carrying amounts or fair values less costs to sell. Assets are not depreciated or amortized while they are classified as held for sale. A component of a reporting entity or a group of components of a reporting entity that are disposed or meet the criteria to be classified as held for sale should be reported in discontinued operations if the disposal represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. The accounting guidance requires a business activity that, on acquisition, meets the criteria to be classified as held for sale be reported as a discontinued operation. For further information on the Company's assets held for sale and discontinued operations, see Notes 4 and 5.

Reclassifications

Certain amounts in prior periods have been reclassified to conform to current period presentation.

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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.

In May 2017, FASB issued ASU No. 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. This ASU is effective for annual or any interim reporting periods beginning after December 15, 2017 with early adoption permitted. The adoption of ASU 2017-09 is not expected to have a significant impact on its consolidated financial statements.

In March 2017, FASB issued ASU No. 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. This ASU is effective for annual or any interim reporting periods beginning after December 15, 2017. While the Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements, the Company does not expect the adoption of ASU 2017-07 to have a significant impact on its consolidated financial statements due, in part, to the immateriality of a retirement benefit plan it holds.

In February 2017, FASB issued ASU No. 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. This ASU is effective for annual or any interim reporting periods beginning after December 15, 2017. Early adoption is permitted for interim or annual reporting periods beginning after December 15, 2016. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements, but does not expect to early adopt this ASU.

In January 2017, FASB issued ASU No. 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 still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. This ASU should be applied on a prospective basis. This ASU is effective for the Company for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In January 2017, FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The 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 ASU is effective for annual periods beginning after December 15, 2017, including interim periods within those periods with early adoption being permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements and expects to adopt the standard prospectively on January 1, 2018.

In October 2016, FASB issued 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. This ASU is effective for fiscal years and interim period within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

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 accounts receivable and is currently evaluating the extent of the impact that the adoption of this ASU will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). In September 2017, the FASB issued ASU 2017-13 ("ASU 2017-13"), which provides 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 continues to assess the impact of adopting this standard will have on its consolidated financial statements and believes the ASU will have a significant impact on its consolidated financial statements due, in part, to the substantial amount of leases it has. 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.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments- Overall (Subtopic 825-10) ("ASU 2016-01"), which 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. In addition, the ASU eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities and the requirement to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet for public business entities. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company currently holds publicly traded equity securities that are classified as “available-for-sale” and are carried at fair value with unrealized gains and losses reported in stockholders’ equity as a component of accumulated other comprehensive income (loss). Upon the adoption of this ASU, the unrealized gains and losses will be recognized through net income. The Company has not elected to measure its financial liabilities at fair value therefore, does not expect to have an impact on the accounting for its financial liabilities. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers ("ASU 2014-09") Topic 606 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 and ASU 2017-13, collectively referred as "Topic 606." Topic 606 will replace 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 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. Topic 606 allows entities to adopt with one of these two methods: full retrospective, which applies retrospectively to each prior reporting period presented, or modified retrospective, which recognizes the cumulative effect of initially applying the revenue standard as an adjustment to the opening balance of retained earnings in the period of initial application. The Company currently anticipates adopting the standard using the modified retrospective method.
Topic 606, as amended, is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein (i.e. January 1, 2018, for a calendar year entity). Early application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company will adopt the standard on January 1, 2018.
While the Company is continuing to evaluate all potential impacts of the standard, the Company believes the most significant impact relates to its accounting for installation revenue and the cost to obtain contracts. Under the new standard, the Company expects to recognize installation revenue over the contract period rather than over the estimated installation life. Under the new standard, the Company is also required to capitalize and amortize certain costs to obtain contracts. Therefore, these costs to obtain contracts will not be immediately expensed, but will be capitalized and amortized.
Furthermore, the Company is making investments in systems and processes and designing operational and internal control structural changes in order to report under the new standard.
Accounting Standards Adopted
In January 2017, FASB issued ASU No. 2017-03, Accounting Changes and Error Corrections (Topic 250). The ASU adds SEC disclosure requirements for both the quantitative and qualitative impacts that certain recently issued accounting standards will have on the financial statements of a registrant when such standards are adopted in a future period. Specially, these disclosure requirements apply to the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606); ASU No. 2016-02, Leases (Topic 842); and ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU is effective immediately. The Company adopted ASU 2017-03 in the three months ended March 31, 2017 by including appropriate disclosure requirements within its condensed consolidated financial statements to adhere to this new ASU.
In December 2016, FASB issued ASU No. 2016-19, Technical Corrections and Improvements. This ASU covers a wide range of Topics in the Accounting Standards Codification. Certain aspects of this ASU were effective immediately, while a few of the corrections are effective for the Company for its fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. The Company adopted ASU 2016-19 in the three months ended March 31, 2017. The adoption of ASU 2016-19 did not impact the Company's condensed consolidated financial statements.
In November 2016, FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU applies to all entities that have restricted cash or restricted cash equivalents and are required to present a statement of cash flows. The ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This ASU is effective for the Company for its fiscal years beginning after December 15, 2017, and interim periods within those fiscal years with early adoption being permitted. This ASU should be applied using a

retrospective transition method to each period presented. The Company adopted ASU 2016-18 in the three months ended March 31, 2017 and applied this ASU retrospectively to the periods presented in the Company's condensed consolidated statements of cash flows. As a result, net cash used in investing activities for the nine months ended September 30, 2016 was adjusted to exclude the change in restricted cash and increased the previously reported amount by $444.4 million. Restricted cash amounts are primarily time deposits or cash set side as a pledge for our mortgage loan in Germany, an escrow account for a data center project and collateral for the Company's various bank guarantees for the periods ended September 30, 2017 and 2016.

In October 2016, FASB issued ASU No. 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control. This ASU alters how a decision maker needs to consider indirect interests in a variable interest entity ("VIE") held through an entity under common control. Under this ASU, if a decision maker is required to evaluate whether it is the primary beneficiary of a VIE, it will need to consider only its proportionate indirect interest in the VIE held through a common control party. This ASU is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years, with early adoption permitted. The Company adopted ASU 2016-17 in the three months ended March 31, 2017. The adoption of this standard did not impact the Company's condensed consolidated financial statements as it does not hold any interests in a VIE through related parties that are under common control.

In August 2016, FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU provides guidance on the classification of eight cash flow issues to reduce the existing diversification in practice, including (a) debt prepayment or debt extinguishment costs; (b) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (c) contingent consideration payments made after a business combination; (d) proceeds from settlement of insurance claims; (e) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (f) distributions received from equity method investees; (g) beneficial interests in securitization transactions; and (h) separately identifiable cash flows and application of the predominance principle. The ASU is effective for fiscal years and interim period within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company adopted ASU 2016-15 in the three months ended March 31, 2017 and applied this ASU using a retrospective transition method to each period presented in the Company's condensed consolidated statements of cash flows. The adoption of ASU 2016-15 did not impact the Company's condensed consolidated statements of cash flows.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). This ASU simplifies several areas of the accounting for share-based payment award transactions, including (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. This ASU is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted. The Company adopted ASU 2016-09 in the three months ended March 31, 2017. Beginning on January 1, 2017, the Company began to record the excess tax benefits from stock-based compensation as income tax expense through the statement of operations instead of additional paid-in capital as required under the previous guidance. There was no adjustment to excess tax benefits from stock-based compensation recorded as additional paid-in capital in prior years. Excess tax benefits that were not previously recognized, as well as a valuation allowance recognized for deferred tax assets as a result of the adoption of this ASU, were recorded on a modified retrospective basis through a cumulative-effect adjustment to retained earnings as of the beginning of 2017 totaling $1.1 million. As a part of the adoption of this ASU, stock compensation awards will have more dilutive effect on the Company's earnings per share prospectively.

Under this guidance, cash flows related to excess tax benefits will no longer be separately classified as financing activities apart from other income tax cash flow. The Company elected to apply this part of the guidance retrospectively, which resulted in a change of $1.5 million in both net cash provided by operating activities and net cash used in financing activities in the Company's condensed consolidated statement of cash flows for the nine months ended September 30, 2016 to conform with the current period presentation. Additionally, this guidance permits entities to make an accounting policy to estimate forfeitures each period or to account for forfeitures as they occur. The Company elected to continue to estimate forfeitures.

In March 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815), Contingent Put and Call Options in Debt Instruments ("ASU 2016-06"). This ASU clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. An entity performing the assessment under the amendments in this ASU is required to assess the embedded call (put) options solely in accordance with the four-step decision sequence. This guidance is to be applied on a modified retrospective basis to existing debt instruments as of the beginning of the fiscal year in which the amendments are effective, and is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted ASU 2016-06 in the three months ended March 31, 2017. The adoption of this standard did not impact the Company's condensed consolidated financial statements.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815), Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships ("ASU 2016-05"). This ASU clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under Topic 815 does not, in and of itself, require dedesignation of

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that hedging relationship provided that all other hedge accounting criteria continue to be met. This ASU may be applied prospectively or using a modified retrospective approach, and is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. The Company adopted ASU 2016-05 in the three months ended March 31, 2017. The adoption of ASU 2016-05 did not impact the Company's condensed consolidated financial statements.

2. 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 September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net income:				
Net income from continuing operations	$79,900	$48,769	$167,767	$50,744
Net income from discontinued operations	—	2,681	—	14,306
Net income	$79,900	$51,450	$167,767	$65,050
Weighted-average shares used to calculate basic EPS	78,055	71,190	76,283	69,689
Effect of dilutive securities:				
Employee equity awards	664	718	665	700
Weighted-average shares used to calculate diluted EPS	78,719	71,908	76,948	70,389
Basic EPS:				
Continuing operations	$1.02	$0.69	$2.20	$0.73
Discontinued operations	—	0.04	—	0.21
Basic EPS	$1.02	$0.73	$2.20	$0.94
Diluted EPS:				
Continuing operations	$1.02	$0.68	$2.18	$0.72
Discontinued operations	—	0.04	—	0.20
Diluted EPS	$1.02	$0.72	$2.18	$0.92

The following table sets forth weighted-average outstanding potential shares of common stock that are not included in the diluted EPS calculation above because to do so would be anti-dilutive for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Shares reserved for conversion of 4.75% convertible subordinated notes	—	—	—	1,193
Common stock related to employee equity awards	73	22	88	17
Total	73	22	88	1,210

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3. Acquisitions

Certain Verizon Data Center Assets Acquisition

On May 1, 2017, the Company completed the acquisition of certain colocation business from Verizon Communications Inc. ("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 Company funded the Verizon Data Center Acquisition with proceeds of debt and equity financings, which closed in January and March 2017 (See further discussions on the term loan borrowing and senior notes issuance in Note 9 and common stock issuance in Note 11). 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.

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 JPMorgan Chase Bank, N.A., Bank of America, N.A. and Merrill Lynch, Pierce, Fenner & Smith Incorporated 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 and the fees and expenses incurred in connection with 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. See further discussions on the senior notes issuance in Note 9 and common stock issuance in Note 11. The Company paid $10.0 million of commitment fees associated with the Commitment Letter and recorded $2.2 million for the year ended December 31, 2016 and $7.8 million for the nine months ended September 30, 2017 to interest expense in the condensed consolidated statements of operations.

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. The Company incurred acquisition costs of approximately $1.2 million and $27.6 million during the three and nine months ended September 30, 2017, respectively.

Purchase Price Allocation

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. As of September 30, 2017, the Company has not completed the detailed valuation analysis 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, with assistance from third party valuation advisers. As of September 30, 2017, the Company has updated the preliminary allocation of purchase price for the Verizon Data Center Acquisition from the provisional amounts reported as of June 30, 2017 and the adjustments made during the three months ended September 30, 2017 were not significant. The adjustments in fair value of acquired assets and liabilities assumed did not have a significant impact on the Company’s condensed consolidated statements of operations for the three months ended September 30, 2017.

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The Company may further adjust these amounts as valuations are finalized and the Company obtains information necessary to complete the analyses, but no later than one year from the acquisition date. The preliminary purchase price allocation is as follows (in thousands):

Cash and cash equivalents	$1,073
Accounts receivable	319
Other current assets	7,319
Property, plant, and equipment	841,401
Intangible assets (1)	1,706,100
Goodwill	1,083,789
Total assets acquired	3,640,001
Accounts payable and accrued liabilities	(1,725)
Other current liabilities	(320)
Capital lease and other financing obligations	(17,659)
Deferred tax liabilities	(19,544)
Other liabilities	(6,067)
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 $246.1 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 14.4%, 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. The goodwill is attributable to the workforce of the acquired business and the revenue increase from future customers expected to arise after the Verizon Data Center Acquisition. The goodwill is not expected to be deductible for local tax purposes. Goodwill will not be amortized and will be tested for impairment at least annually. Goodwill recorded as a result of the Verizon Data Center Acquisition was attributable to the Company's Americas region. For the three months ended September 30, 2017, the Company's results of continuing operations include the Verizon Data Center Acquisition's revenues of $137.0 million and net income from continuing operations of $29.2 million. The Company's results of continuing operations include the Verizon Data Center Acquisition's revenues of $223.7 million and net income from continuing operations of $56.3 million for the period May 1, 2017 through September 30, 2017.

IO Acquisition

On February 3, 2017, the Company acquired IO UK's data center operating business in Slough, United Kingdom, for a cash payment of approximately $36.3 million ("IO Acquisition"). The acquired facility was renamed London 10 ("LD10") data center. The IO Acquisition constitutes a business under the accounting standard for business combinations and as a result, was accounted for as a business combination using the acquisition method of accounting. Under the acquisition method of accounting, the assets acquired and liabilities assumed in a business combination shall be measured at fair value at the date of the acquisition. As of September 30, 2017, the Company has not completed the detailed valuation analysis to derive the fair value of deferred taxes. The

Company has updated the preliminary allocation of purchase price for the IO Acquisition from the provisional amounts reported as of June 30, 2017 and the adjustments made during the three months ended September 30, 2017 were not significant. The adjustments in fair value of acquired assets and liabilities did not have a significant impact on the Company’s condensed consolidated statements of operations for the three months ended September 30, 2017. The purchase price has been allocated primarily to property, plant and equipment of $40.3 million, goodwill of $16.2 million, intangible assets of $6.3 million, deferred tax assets of $6.3 million and financing obligations of $33.1 million on a provisional basis. The nature of the intangible assets acquired is customer relationships with an estimated useful life of 10 years. Goodwill is not expected to be deductible for local tax purposes and is attributable to the Company's EMEA region. Goodwill will not be amortized and will be tested for impairment at least annually.

The Company included IO UK's data center operating results from February 3, 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 February 3, 2017. For the three months ended September 30, 2017, the incremental revenues from the IO Acquisition were not significant and for the nine months ended September 30, 2017, the incremental revenues were $4.0 million. The incremental net losses and acquisition costs were not significant to the Company's condensed consolidated statements of operations for both periods.

Paris IBX Data Center Acquisition

On August 1, 2016, the Company completed the purchase of Digital Realty Trust, Inc.'s ("Digital Realty's") operating business including its real estate and facility, located in St. Denis, Paris for cash consideration of approximately €193.8 million or $216.4 million at the exchange rate in effect on August 1, 2016 (the "Paris IBX Data Center Acquisition"). A portion of the building was leased to the Company and was being used by the Company as its Paris 2 and Paris 3 data centers. The Paris 2 lease was accounted for as an operating lease and the Paris 3 lease was accounted for as a financing lease. Upon acquisition, the Company in effect terminated both leases. The Company settled the financing lease obligation of Paris 3 for €47.8 million or approximately $53.4 million and recognized a loss on debt extinguishment of €8.8 million or approximately $9.9 million in the third quarter of 2016. The Paris IBX Data Center Acquisition constitutes a business under the accounting standard for business combinations and as a result, the Paris IBX Data Center Acquisition was accounted for as a business combination using the acquisition method of accounting.

The Company included the incremental Paris IBX Data Center's results of operations from August 1, 2016 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 August 1, 2016. The Company incurred acquisition costs of approximately $12.0 million for the year ended December 31, 2016 related to the Paris IBX Data Center Acquisition.

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Purchase Price Allocation

Under the acquisition method of accounting, the assets acquired and liabilities assumed in a business combination shall be measured at fair value at the date of the acquisition and the Company completed the valuation analysis. The purchase price allocation, which excludes settlement of the Paris 3 financing obligations, was as follows (in thousands):

Cash and cash equivalents	$4,073
Accounts receivable	1,507
Other current assets	794
Property, plant and equipment	143,972
Intangible assets	11,758
Goodwill	48,835
Other assets	81
Total assets acquired	211,020
Accounts payable and accrued liabilities	(2,044)
Other current liabilities	(2,798)
Deferred tax liabilities	(42,395)
Other liabilities	(755)
Net assets acquired	$163,028

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. Goodwill is not expected to be deductible for local tax purposes. Goodwill will not be amortized and will be tested for impairment at least annually. Goodwill is attributable to the Company's EMEA region.

The following table presents certain information on the acquired identifiable intangible assets (dollars in thousands):

Intangible Assets	Fair Value	Estimated Useful Lives (Years)	Weighted-average Estimated Useful Lives (Years)
In-place leases	$7,485	0.9-9.4	4.3
Favorable leasehold interests	4,273	1.9-6.7	5.3

The fair value of in-place leases may consist of a variety of components including, but not necessarily limited to the value associated with avoiding the cost of originating the acquired in-place leases. The fair value of favorable leases was estimated based on the income approach, by computing the net present value of the difference between the contractual amounts to be paid pursuant to the lease agreements and estimates of the fair market lease rates for the corresponding in-place leases measured over the remaining non-cancellable terms of the leases. 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 the property, plant and equipment was estimated by applying the income approach or cost approach, such as cash flows or earnings that an asset can be expected to generate over its useful life or the replacement or reproduction cost.

For the three months ended September 30, 2017 and 2016, the incremental revenues and incremental net losses from the Paris IBX Data Center Acquisition were not significant to the Company's condensed consolidated statements of operations. For the nine months ended September 30, 2017, the incremental revenues from the Paris IBX Data Center Acquisition were $9.1 million, and for the nine months ended September 30, 2016, the incremental revenues were not significant to the Company's condensed consolidated statements of operations. The incremental net losses were not significant to the Company's condensed consolidated statements of operations for the nine months ended September 30, 2017 and 2016.

TelecityGroup Acquisition

On January 15, 2016, the Company completed the acquisition of the entire issued and to be issued share capital of TelecityGroup. TelecityGroup operates data center facilities in cities across Europe. The acquisition of TelecityGroup has enhanced the Company's existing data center portfolio by adding new IBX metro markets in Europe including Dublin, Helsinki, Istanbul, Manchester, Milan, Sofia, Stockholm and Warsaw. As a result of the transaction, TelecityGroup became a wholly-owned subsidiary of the Company.

Under the terms of the acquisition, the Company acquired all outstanding shares and all vested equity awards of TelecityGroup at 572.5 pence in cash and 0.0336 new shares of Equinix common stock for a total purchase consideration of approximately £2,624.5 million or approximately $3,743.6 million. In addition, the Company assumed $1.3 million of TelecityGroup's vested employee equity awards as part of consideration transferred. The Company incurred acquisition costs of approximately $42.5 million during the year ended December 31, 2016 related to the TelecityGroup acquisition.

In connection with the TelecityGroup acquisition, the Company placed £322.9 million or approximately $475.7 million into a restricted cash account. The cash was released upon completion of the acquisition.

Purchase Price Allocation

Under the acquisition method of accounting, the assets acquired and liabilities assumed in a business combination shall be measured at fair value at the date of the acquisition and the Company completed the valuation analysis. As of December 31, 2016, the Company updated the final allocation of purchase price for TelecityGroup from the provisional amounts reported as of March 31, 2016, which primarily resulted in increases to intangible assets of $36.8 million and deferred tax liabilities of $19.5 million and decreases in capital lease and other financing obligations of $34.4 million, goodwill of $22.5 million and assets held for sale of $36.9 million. The changes did not have a significant impact on the Company’s results from operations for the year ended December 31, 2016.

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

Cash and cash equivalents	$73,368
Accounts receivable	24,042
Other current assets	41,079
Assets held for sale	877,650
Property, plant and equipment	1,058,583
Goodwill	2,215,567
Intangible assets	694,243
Deferred tax assets	994
Other assets	4,102
Total assets acquired	4,989,628
Accounts payable and accrued expenses	(84,367)
Accrued property, plant and equipment	(3,634)
Other current liabilities	(27,233)
Liabilities held for sale	(155,650)
Capital lease and other financing obligations	(165,365)
Mortgage and loans payable	(592,304)
Deferred tax liabilities	(176,168)
Other liabilities	(40,021)
Net assets acquired	$3,744,886

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The purchase price allocation above, as of the acquisition date, includes acquired assets and liabilities that were classified by the Company as held for sale (Note 4).
The following table presents certain information on the acquired intangible assets (dollars in thousands):

Intangible Assets	Fair Value	Estimated Useful Lives (Years)	Weighted-average Estimated Useful Lives (Years)
Customer relationships	$591,956	13.5	13.5
Trade names	72,033	1.5	1.5
Favorable leases	30,254	2.0 - 25.4	19.7

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 a weighted-average discount rate of approximately 8.5%, which reflected the nature of the assets as they relate to the estimated future operating cash flows. Other significant assumptions used to estimate the fair value of the customer relationships include projected revenue growth, customer attrition rates, sales and marketing expenses and operating margins. The fair value of the TelecityGroup trade name was estimated using the relief of royalty approach. The Company applied a relief of royalty rate of 2.0% and a weighted-average discount rate of approximately 9.0%. The fair value of the other acquired identifiable intangible assets was estimated by applying a relief of royalty or cost approach as appropriate. 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 the property, plant and equipment was estimated by applying the income approach or cost approach. The income approach is used to estimate fair value based on the income stream, such as cash flows or earnings that an asset can be expected to generate over its useful life. There are two primary methods of applying the income approach to determine the fair value of assets: the discounted cash flow method and the direct capitalization method. The key assumptions include the estimated earnings, discount rate and direct capitalization rate. 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.
The Company determined the fair value of the loans payable assumed in the TelecityGroup acquisition by estimating TelecityGroup's debt rating and reviewing market data with a similar debt rating and other characteristics of the debt, including the maturity date and security type. On January 15, 2016, the Company prepaid and terminated these loans payable. In conjunction with the repayment of the loans payable, the Company incurred an insignificant amount of pre-payment penalties and interest rate swap termination costs, which were recorded as interest expense in the condensed consolidated statement of operations.
Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The goodwill is attributable to the workforce of the acquired business and the significant synergies expected to arise after the TelecityGroup acquisition. The goodwill is not expected to be deductible for local tax purposes. Goodwill will not be amortized and will be tested for impairment at least annually. Goodwill recorded as a result of the TelecityGroup acquisition, except for the goodwill associated with assets held for sale, is attributable to the Company's EMEA region. For the three months ended September 30, 2016, the Company's results of continuing operations include TelecityGroup revenues of $107.3 million and net loss from continuing operations of $15.7 million. For the nine months ended September 30, 2016, the Company's results of continuing operations include TelecityGroup revenues of $299.0 million and net loss from continuing operations of $54.4 million.

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, 2016. The Company completed the Verizon Data Center Acquisition on May 1, 2017. The operating results of the Verizon Data Center Acquisition for the period May 1, 2017 through September 30, 2017 are included in the condensed consolidated statements of operations for the three and nine months ended September 30, 2017. The unaudited pro forma combined financial information includes adjustments for amortization expenses of acquired intangible assets, transaction related costs, bridge loan commitment fee in connection with the Verizon Data Center Acquisition and the consequential tax effects of these adjustments.

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. For the three and nine months ended September 30, 2017, the Company recognized approximately $137.0 million and $223.7 million, respectively, of revenues attributed to the Verizon Data Center Acquisition, which included these arrangements.

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 Verizon Data Center Acquisition occurred on January 1, 2016, 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 and nine months ended September 30, 2017 and 2016 (in thousands, except per share amounts):

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenues	$1,152,261	$1,034,999	$3,309,381	$3,000,311
Net income (loss) from continuing operations	80,135	35,069	194,504	(37,410)
Basic EPS	1.03	0.45	2.50	(0.49)
Diluted EPS	1.02	0.45	2.48	(0.49)

4. Assets Held for Sale

In June 2016, the Company approved the divestiture of the solar power assets of Bit-isle. In October 2016, the Company entered into a Share Transfer Agreement for the transfer of common stock of Terra Power Co., Ltd., relating to the divestiture of the solar power assets of Bit-isle. The Company received ¥400.0 million upon the closing of the transaction, or approximately $3.8 million at the exchange rate in effect on October 31, 2016. In November 30, 2016, the Company received an additional ¥2,500.0 million, or approximately $22.1 million at the exchange rate in effect at the time of receipt. The Company received the remaining payment of ¥5,313.4 million in the first quarter of 2017, or approximately $47.8 million at the exchange rate in effect on March 31, 2017. During the three months ended September 30, 2016, the Company evaluated the recoverability of the carrying value of its assets held for sale related to the sales agreement signed in October, as discussed above, and concluded that the Company would not recover the carrying value of certain assets. Accordingly, the Company recorded an impairment charge on other current assets of $7.7 million at September 30, 2016, reducing the carrying value of such assets from $79.5 million to the estimated fair value of $71.8 million.

During the fourth quarter of 2015, the Company and TelecityGroup agreed to divest certain data centers, including the Company's London 2 ("LD2") data center and certain data centers of TelecityGroup in the United Kingdom, Netherlands and Germany, in order to obtain the approval of the European Commission for the acquisition of TelecityGroup. The assets and liabilities of LD2, which were included within the EMEA operating segment, were classified as held for sale in the fourth quarter of 2015 and, therefore, the corresponding depreciation and amortization expense was ceased at that time. This divestiture was not presented as discontinued operations in the condensed consolidated statements of operations, because it did not represent a strategic shift in the Company's business, as the Company continued operating similar businesses after the divestiture. The divestiture was completed on July 5, 2016 and the Company recognized a gain of $27.9 million on the sale of the LD2 data center, which is included in gains on asset sales in the condensed consolidated statements of operations for the three and nine months ended September 30, 2016.

The revenue and net income generated by LD2 during the three months ended September 30, 2016 were not significant. During the nine months ended September 30, 2016, LD2 generated revenues of $6.1 million and net income of $2.3 million.

During the fourth quarter of 2015, the Company entered into an agreement to sell a parcel of land in San Jose, California. The sale was completed in February 2016 and the Company recognized a gain on sale of $5.2 million.

5. Discontinued Operations

In order to obtain the approval of the European Commission for the acquisition of TelecityGroup, the Company and TelecityGroup agreed to divest certain data centers of TelecityGroup in the United Kingdom, Netherlands and Germany. These TelecityGroup data centers, on acquisition, met the criteria to be classified as held for sale and were therefore reported as discontinued operations. As of January 15, 2016, the date of TelecityGroup acquisition, depreciation and amortization of the reported discontinued operations were ceased.

On July 5, 2016, the Company completed the sale of these data centers and related assets to Digital Realty for approximately €304.6 million and £376.2 million, or approximately $827.3 million at the exchange rates in effect on July 5, 2016. The Company recognized a gain on sale of the TelecityGroup data centers in discontinued operations of $4.2 million for the three months ended September 30, 2016. The results of operations for these data centers that were divested have been reported as net income from discontinued operations, net of tax, from January 15, 2016, the date of TelecityGroup acquisition, through July 5, 2016 in the Company's condensed consolidated statements of operations. The results of operations for these data centers during the three months ended September 30, 2016 were not significant. Capital expenditures from the date of acquisition through the date of sale were $31.5 million.

The Company did not record income from discontinued operations, net of tax for the three and nine months ended September 30, 2017. The following table presents the financial results of the Company's discontinued operations for the nine months ended September 30, 2016 (in thousands).

	Nine Months Ended September 30, 2016
Revenues	$ 48,782
Costs and operating expenses:	
Cost of revenues	24,795
Sales and marketing	1,030
General and administrative	7,026
Total costs and operating expenses	32,851
Income from discontinued operations	15,931
Interest and other, net	(1,286)
Income from discontinued operations before income taxes	14,645
Income tax expense	(4,581)
Gain on sale of discontinued operations, net of income taxes	4,242
Net income from discontinued operations, net of tax	$ 14,306

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6. 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 the value of investments in its foreign subsidiaries. In order to mitigate the impact of foreign currency exchange rates, the Company has issued various foreign currency debt which is designated as hedges against the Company's net investments in foreign subsidiaries. As of September 30, 2017 and December 31, 2016, the total principal amounts of foreign currency debt, which was designated as net investment hedges, were $2,499.4 million and $646.2 million, respectively. The Company also uses foreign currency 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 other comprehensive income in the condensed consolidated balance sheets.

The Company recorded net foreign exchange losses of $60.7 million and $191.1 million in other comprehensive income (loss) for the three and nine months ended September 30, 2017 and net foreign exchange gains of $5.5 million and $44.4 million in other comprehensive income (loss) for the three and nine months ended September 30, 2016, respectively. For the three and nine months ended September 30, 2016, the Company reclassified net foreign exchange gains of $40.0 million to gain on sale of discontinued operations. The Company recorded no ineffectiveness from its net investment hedges for the three and nine months ended September 30, 2017 and 2016.

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 to hedge this exposure are designated as cash flow hedges under the accounting standard for derivatives and hedging. The Company also uses net purchased collar options to manage a portion of its exposure to foreign currency exchange rate fluctuations, where the Company writes a foreign currency call option and purchases a foreign currency put option. When two or more derivative instruments in combination are jointly designated as a cash flow hedging instrument, they are treated as a single instrument.

The Company enters into intercompany hedging instruments ("intercompany derivatives") with wholly-owned subsidiaries 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 September 30, 2017, the Company's cash flow hedge instruments had maturity dates ranging from October 2017 to August 2019 as follows (in thousands):

	Notional Amount	Fair Value [1]	Accumulated Other Comprehensive Income (Loss) [2] [3]
Derivative assets	$111,080	$ 5,441	$ 5,059
Derivative liabilities	492,159	(29,762)	(34,017)
Total	$603,239	$ (24,321)	$ (28,958)

(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 $19.9 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.

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As of December 31, 2016, the Company's cash flow hedge instruments had maturity dates ranging from January 2017 to November 2018 as follows (in thousands):

	Notional Amount	Fair Value [1]	Accumulated Other Comprehensive Income (Loss) [2] [3]
Derivative assets	$545,638	$ 44,570	$ 42,634
Derivative liabilities	42,207	(1,815)	(1,453)
Total	$587,845	$ 42,755	$ 41,181

(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 gain of $31.9 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 September 30, 2017 and 2016, the ineffective and excluded portions of cash flow hedges recognized in other income (expense) were not significant. During the three months ended September 30, 2017, the amount of net losses reclassified from accumulated other comprehensive income (loss) to revenues and the amount of net gains reclassified from accumulated other comprehensive income (loss) to operating expenses were not significant. During the three months ended September 30, 2016, the amount of net gains reclassified from accumulated other comprehensive income (loss) to revenues was $10.1 million and the amount of net losses reclassified from accumulated other comprehensive income (loss) to operating expenses was $5.0 million.

During the nine months ended September 30, 2017, the amount of net gains from the ineffective and excluded portions of cash flow hedges recognized in other income (expense) was $3.6 million. During the nine months ended September 30, 2016, net gains from the ineffective and excluded portions of cash flow hedges recognized in other income (expense) were not significant. During the nine months ended September 30, 2017, the amount of net gains reclassified from accumulated other comprehensive income (loss) to revenues was $25.8 million and the amount of net losses reclassified from accumulated other comprehensive income (loss) to operating expenses was $13.4 million. During the nine months ended September 30, 2016, the amount of net gains reclassified from accumulated other comprehensive income (loss) to revenues was $22.7 million and the amount of net losses reclassified from accumulated other comprehensive income (loss) to operating expenses was $11.7 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 September 30, 2017 and 2016, gains (losses) associated with these embedded derivatives were not significant. During the nine months ended September 30, 2017 and 2016, the losses associated with these embedded derivatives were $6.3 million and $7.3 million, respectively.

Economic Hedges of Embedded Derivatives. The Company uses foreign currency forward contracts to 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 within revenues in the Company's condensed consolidated statements of operations along with gains and losses of the related embedded derivatives. The Company entered into various economic hedges of embedded derivatives during the three and nine months ended September 30, 2017 and 2016. During the three and nine months ended September 30, 2017, the gains (losses) associated with these contracts were not significant. During the three months ended September 30, 2016, the gains (losses) associated with these contracts were not significant. During the nine months ended September 30, 2016, the gains associated with these contracts were $5.3 million.

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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), net in the Company's condensed consolidated statements of operations, along with foreign currency gains and losses of the related foreign currency-denominated assets and liabilities associated with these foreign currency forward and option contracts. The Company entered into various foreign currency forward and option contracts during the three and nine months ended September 30, 2017 and 2016. During the three and nine months ended September 30, 2017, the Company recognized net losses of $23.1 million and $60.2 million, respectively, associated with these contracts. During the three and nine months ended September 30, 2016, the Company recognized net gains of $3.2 million and $44.6 million, respectively, associated with these contracts.
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 September 30, 2017 (in thousands):

	Gross Amounts	Gross Amounts Offset in the Balance Sheet	Net Amounts [1]	Gross Amounts not Offset in the Balance Sheet [2]	Net
Assets:					
Designated as hedging instruments:					
Foreign currency forward contracts designated as cash flow hedges	$ 5,441	$ —	$ 5,441	$ (5,441)	$ —
Not designated as hedging instruments:					
Embedded derivatives	5,096	—	5,096	—	5,096
Economic hedges of embedded derivatives	969	—	969	(278)	691
Foreign currency forward contracts	6,947	—	6,947	(1,973)	4,974
	13,012	—	13,012	(2,251)	10,761
Additional netting benefit	—	—	—	(3,680)	(3,680)
	$ 18,453	$ —	$ 18,453	$ (11,372)	$ 7,081
Liabilities:					
Designated as hedging instruments					
Foreign currency forward and option contracts designated as cash flow hedges	$ 29,762	$ —	$ 29,762	$ (5,441)	$ 24,321
Not designated as hedging instruments:					
Embedded derivatives	3,013	—	3,013	—	3,013
Economic hedges of embedded derivatives	278	—	278	(278)	—
Foreign currency forward contracts	2,806	—	2,806	(1,973)	833
	6,097	—	6,097	(2,251)	3,846
Additional netting benefit	—	—	—	(3,680)	(3,680)
	$ 35,859	$ —	$ 35,859	$ (11,372)	$ 24,487

(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.

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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, 2016 (in thousands):

	Gross Amounts	Gross Amounts Offset in the Balance Sheet	Net Amounts (1)	Gross Amounts not Offset in the Balance Sheet (2)	Net
Assets:					
Designated as hedging instruments:					
Cash flow hedges					
Foreign currency forward and option contracts	$ 44,570	$ —	$ 44,570	$ (1,815)	$ 42,755
Net investment hedges					
Foreign currency forward contracts	6,930	—	6,930	(3,310)	3,620
	51,500	—	51,500	(5,125)	46,375
Not designated as hedging instruments:					
Embedded derivatives	9,745	—	9,745	—	9,745
Foreign currency forward contracts	8,734	—	8,734	(1,873)	6,861
	18,479	—	18,479	(1,873)	16,606
Additional netting benefit	—	—	—	(2,436)	(2,436)
	$ 69,979	$ —	$ 69,979	$ (9,434)	$ 60,545
Liabilities:					
Designated as hedging instruments:					
Cash flow hedges					
Foreign currency forward and option contracts	$ 1,815	$ —	$ 1,815	$ (1,815)	$ —
Net investment hedges					
Foreign currency forward contracts	3,525	—	3,525	(3,310)	215
	5,340	—	5,340	(5,125)	215
Not designated as hedging instruments:					
Embedded derivatives	1,525	—	1,525	—	1,525
Economic hedges of embedded derivatives	866	—	866	—	866
Foreign currency forward contracts	3,228	—	3,228	(1,873)	1,355
	5,619	—	5,619	(1,873)	3,746
Additional netting benefit	—	—	—	(2,436)	(2,436)
	$ 10,959	$ —	$ 10,959	$ (9,434)	$ 1,525

(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.

7. Fair Value Measurements

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.

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.

The Company's financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 were as follows (in thousands):

	Fair Value at September 30, 2017	Fair Value Measurement Using Level 1	Level 2
Assets:			
Cash	$ 1,130,270	$ 1,130,270	$ —
Money market and deposit accounts	469,718	469,718	—
Publicly traded equity securities	7,701	7,701	—
Certificates of deposit	32,756	—	32,756
Derivative instruments (1)	18,453	—	18,453
Total	$ 1,658,898	$ 1,607,689	$ 51,209
Liabilities:			
Derivative instruments (1)	$ 35,859	$ —	$ 35,859
Total	$ 35,859	$ —	$ 35,859

(1) Includes both foreign currency embedded derivatives and foreign currency forward and option 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.

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The Company's financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 were as follows (in thousands):

	Fair Value at December 31, 2016	Fair Value Measurement Using	
		Level 1	Level 2
Assets:			
Cash	$ 345,119	$345,119	$—
Money market and deposit accounts	400,388	400,388	—
Publicly traded equity securities	6,463	6,463	—
Certificates of deposit	9,957	—	9,957
Derivative instruments [(1)]	69,979	—	69,979
Total	$ 831,906	$751,970	$79,936
Liabilities:			
Derivative instruments [(1)]	$ 10,959	$—	$10,959
Total	$ 10,959	$—	$10,959

(1) Includes both foreign currency embedded derivatives and foreign currency forward and option 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 September 30, 2017 and December 31, 2016.

8. Leases

Capital Lease and Other Financing Obligations

Amsterdam 5 ("AM5") Data Center

In May 2017, the Company entered into an agreement to acquire the land and building for the AM5 IBX data center for cash consideration of €26.7 million or $30.4 million at the exchange rate in effect on June 30, 2017. The Company had previously leased this IBX data center. As a result of the purchase, the prior lease was effectively terminated and the lease liability was settled in full. The Company settled the financing lease obligation of AM5 data center for €20.0 million or approximately $22.8 million and recognized a loss on debt extinguishment of €7.2 million or approximately $8.2 million. The fair value allocated to the ground lease was €6.7 million or $7.6 million was recorded as other assets and will be amortized through December 2054.

Hong Kong 5 ("HK5") Data Center

In January 2017, the Company entered into an agreement for certain elements of the construction of Hong Kong 5 Data Center. The terms of the construction agreement triggered the Company to be, in substance, the owner of the asset during the construction phase. The Company has accounted for the construction and related agreements as a build-to-suit arrangement. As of September 30, 2017, the Company recorded a financing liability totaling approximately 565.2 million Hong Kong dollars, or $72.4 million at the exchange rate in effect as of September 30, 2017.

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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
2017 (3 months remaining)	$ 21,758	$ 23,065	$ 44,823
2018	93,791	100,966	194,757
2019	87,022	87,789	174,811
2020	87,170	87,636	174,806
2021	87,443	89,294	176,737
Thereafter	882,047	973,777	1,855,824
Total minimum lease payments	1,259,231	1,362,527	2,621,758
Plus amount representing residual property value	—	537,219	537,219
Less amount representing interest	(538,584)	(948,004)	(1,486,588)
Present value of net minimum lease payments	720,647	951,742	1,672,389
Less current portion	(30,043)	(30,158)	(60,201)
Total	$ 690,604	$ 921,584	$ 1,612,188

[1] Other financing obligations are primarily build-to-suit lease obligations.

9. Debt Facilities

Mortgage and Loans Payable

As of September 30, 2017 and December 31, 2016, the Company's mortgage and loans payable consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Term loans	$ 2,619,646	$ 1,413,582
Mortgage payable and loans payable	46,159	44,382
	2,665,805	1,457,964
Less amount representing unamortized debt discount and debt issuance cost	(31,876)	(22,811)
Add amount representing unamortized mortgage premium	2,036	1,862
	2,635,965	1,437,015
Less current portion	(84,455)	(67,928)
Total	$ 2,551,510	$ 1,369,087

Senior Credit Facility

On December 17, 2014, the Company entered into a credit agreement with a group of lenders for a $1,500.0 million credit facility (“Senior Credit Facility”), comprised of a $1,000.0 million multicurrency revolving credit facility (“Revolving Credit Facility”) and a $500.0 million multicurrency term loan facility (“Term Loan A Facility”). The Senior Credit Facility was amended on April 30, 2015 to convert outstanding U.S. dollar-denominated loans into equivalent amounts denominated in four foreign currencies. The Senior Credit Facility was further amended on December 8, 2015 to increase the Revolving Credit Facility to $1,500.0 million and to receive commitments from the lenders for a $250.0 million and £300.0 million seven-year Term B-1 Loans (the “Term B-1 Loan Facility”).

On December 22, 2016, the Company entered into a third amendment (the "Third Amendment") to the Senior Credit Facility. Pursuant to the Third Amendment, (i) the Company could borrow up to €1,000.0 million in additional term B loan (the "Term B-2 Loan"), (ii) the interest rate margin applicable to the existing Term B-1 Loan Facility in U.S. Dollars was reduced from 3.25% to 2.50% and the LIBOR floor applicable to such loans was reduced from 0.75% to zero and (iii) the interest rate margin applicable to the loans borrowed under the Term B-1 Loan Facility in Pounds Sterling was reduced from 3.75% to 3.00%, with no change to the existing LIBOR floor of 0.75% applicable to such loans.

On January 6, 2017, the Company borrowed the full amount of the Term B-2 Loan of €1,000.0 million, or approximately $1,059.8 million, and recorded debt issuance costs of €13.0 million, or approximately $13.8 million at the exchange rate in effect on January 6, 2017. The Term B-2 Loan bore interest at an index rate based on LIBOR plus a margin of 3.25%. The Term B-2 Loan was issued at par. The Term B-2 Loan must be repaid in equal quarterly installments of 0.25% of the original principal amount starting in the second quarter of 2017, with the remaining amount outstanding to be repaid in full on the seventh anniversary of the funding date of the Term B-2 Loan. As of September 30, 2017, the Company had a €995.0 million outstanding balance, or a total of approximately $1,175.6 million at the exchange rate in effect on September 30, 2017, under the Term B-2 Loan. As of September 30, 2017, debt issuance costs related to the Term B-2 Loan, net of amortization, were €11.6 million, or $12.2 million.

On August 15, 2017, the Company entered into a fourth amendment (the "Fourth Amendment") to the Senior Credit Facility. Pursuant to the Fourth Amendment, (i) the interest rate margin applicable to loans borrowed under the Term B-1 Loan Facility in US Dollars was reduced from (a) 2.50% to 2.00% in the case of USD Term B-1 Loan Facility indexed to LIBOR and (b) 1.50% to 1.00% in the case of USD Term B-1 Loan Facility indexed to an alternate base rate, (ii) the LIBOR floor applicable to loans borrowed under the Term B-1 Loan Facility in Pounds Sterling was reduced from 0.75% to zero and (iii) the interest rate margin applicable to loans borrowed under the Term B-2 Loan in Euro was reduced from 3.25% to 2.50%.

Senior Notes

As of September 30, 2017 and December 31, 2016, the Company's senior notes consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
2.875% Euro Senior Notes due 2025 [1]	$ 1,181,500	$—
4.875% Senior Notes due 2020	—	500,000
5.375% Senior Notes due 2022	750,000	750,000
5.375% Senior Notes due 2023	1,000,000	1,000,000
5.750% Senior Notes due 2025	500,000	500,000
5.875% Senior Notes due 2026	1,100,000	1,100,000
5.375% Senior Notes due 2027	1,250,000	—
	5,781,500	3,850,000
Less amount representing unamortized debt issuance cost	(64,224)	(39,230)
Total	$ 5,717,276	$3,810,770

(1) The 2.875% Euro Senior Notes are denominated in Euros with €1,000.0 million outstanding as of September 30, 2017.

Redemption of 2020 Senior Notes

On September 28, 2017, the Company redeemed the entire $500.0 million principal amount of its 4.875% senior notes due 2020 at a redemption price of 102.438% of the principal amount of the notes plus accrued and unpaid interest. The Company recognized a loss on debt extinguishment of $14.6 million related to the redemption of these notes comprised of a $12.2 million early redemption premium and write-off of unamortized debt issuance costs of $2.4 million.

2025 Euro Senior Notes

On September 20, 2017, the Company issued €1,000.0 million, or approximately $1,199.7 million in U.S. dollars, at the exchange rate in effect on September 20, 2017, aggregate principal amount of 2.875% senior notes due October 1, 2025, which

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are referred to as the "2025 Euro Senior Notes." Interest on the notes is payable semi-annually in arrears on April 1 and October 1 of each year, commencing on April 1, 2018. Debt issuance costs related to the 2025 Euro Senior Notes were $16.3 million.

2027 Senior Notes

In March 2017, the Company issued $1,250.0 million aggregate principal amount of 5.375% senior notes due May 15, 2027, which are referred to as the "2027 Senior Notes." Interest on the notes is payable semi-annually in arrears on May 15 and November 15 of each year, commencing on May 15, 2017. Debt issuance costs related to the 2027 Senior Notes were $16.8 million.

The 2025 Euro Senior Notes and 2027 Senior Notes are unsecured and rank equal in right of payment to the Company's existing or future senior indebtedness and senior in right of payment to the Company's existing and future subordinated indebtedness. The 2025 Euro Senior Notes and 2027 Senior Notes are effectively subordinated to all of the existing and future secured debt, including debt outstanding under any bank facility or secured by any mortgage, to the extent of the assets securing such debt. They are also structurally subordinated to any existing and future indebtedness and other liabilities (including trade payables) of any of the Company's subsidiaries.

The 2025 Euro Senior Notes and 2027 Senior Notes are governed by a supplemental indenture to the indenture between the Company and U.S. Bank National Association, as trustee, that also governs the Company's 5.875% Senior Notes due 2026, 5.375% Senior Notes due 2022, and 5.750% Senior Notes due 2025 (collectively, the "Senior Notes"). The supplemental indenture contains covenants that limit the Company's ability and the ability of its subsidiaries to, among other things:

- incur additional debt;
- pay dividends or make other restricted payments;
- purchase, redeem or retire capital stock or subordinated debt;
- make asset sales;
- enter into transactions with affiliates;
- incur liens;
- enter into sale-leaseback transactions;
- provide subsidiary guarantees;
- make investments; and
- merge or consolidate with any other person.

If the Senior Notes are rated investment grade at any time by two or more of Standard & Poor's, Moody's and Fitch, most of the restrictive covenants contained in the supplemental indenture will be suspended. As of September 30, 2017, the Company was in compliance with all debt covenants.

The Company is not required to make any mandatory redemption with respect to the 2025 Euro Senior Notes or 2027 Senior Notes, however upon the event of a change in control, the Company will be required to offer to purchase the 2025 Euro Senior Notes and 2027 Senior Notes.

Optional Redemption Schedule

Senior Notes Description	Early Equity Redemption Price	First Scheduled Redemption Date	First Year Redemption Price	Second Year Redemption Price	Third Year Redemption Price	Fourth Year Redemption Price
5.375% Notes due 2027	105.375%	May 15, 2022	102.688%	101.792%	100.896%	100.000%
2.875% Euro Notes due 2025	102.875%	October 1, 2020	101.438%	100.719%	100.000%	—

The 2025 Euro Senior Notes and 2027 Senior Notes provide for optional redemption. Within 90 days of the closing of one or more equity offerings and at any time prior to the first scheduled redemption date listed in the optional redemption schedule, the Company may redeem up to 35% of the aggregate principal amount of the Senior Notes outstanding at the early equity redemption price, plus accrued and unpaid interest, provided that at least 65% of the aggregate principal amount of the Senior Notes remain outstanding immediately after the occurrence of such redemption.

On or after the first scheduled redemption date listed in the optional redemption schedule, the Company may redeem all or a part of the 2025 Euro Senior Notes and 2027 Senior Notes, on any one or more occasions, at the redemption prices (expressed as percentages of principal amount) set forth in the optional redemption schedule plus accrued and unpaid interest thereon, if any, if redeemed during the twelve-month period beginning on the first scheduled redemption date and at declining redemption prices during the twelve-month periods beginning on the anniversaries of the first scheduled redemption date.

In addition, at any time prior to the respective first scheduled redemption date, the Company may also redeem all or a part of the Senior Notes at a redemption price equal to 100% of the principal amount of Senior Notes redeemed plus the applicable premium (the "Applicable Premium") as of the date of redemption, and accrued and unpaid interest, if any, subject to the rights of the holders of record of the Senior Notes on the relevant record date to receive interest due on the relevant interest payment date. The Applicable Premium is written to make investors whole through the first scheduled optional redemption date and is defined as the greater of:

- 1.0% of the principal amount of the Senior Notes; and
- the excess of: (a) the present value at such redemption date of (i) the redemption price of the Senior Notes at the first scheduled redemption date, plus (ii) all required interest payments due on the Senior Notes through the first scheduled redemption date, computed using a discount rate equal to the treasury rate (or Bund rate for Euro Senior Notes) as of such redemption date plus 50 basis points; over (b) the principal amount of the Senior Notes, if greater.

In the event of any amendment to, or change in, the laws of a relevant tax jurisdiction, which would require the Company to pay additional amounts in respect to the 2025 Euro Senior Notes, the Company may redeem at any time the 2025 Euro Senior Notes in whole, but not in part, at a redemption price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest.

As of September 30, 2017, unamortized debt issuance costs related to the 2025 Euro Senior Notes were €13.5 million or approximately $16.0 million. Unamortized debt issuance costs related to 2027 Senior Notes were $16.0 million.

Maturities of Debt Facilities

The following table sets forth maturities of the Company's debt, including mortgage and loans payable, and senior notes, gross of debt issuance costs and debt discounts, as of September 30, 2017 (in thousands):

Years ending:	
2017 (3 months remaining)	$21,105
2018	84,478
2019	389,409
2020	44,027
2021	355,279
Thereafter	7,555,043
Total	$8,449,341

Fair Value of Debt Facilities

The following table sets forth the estimated fair values of the Company's mortgage and loans payable and senior notes (gross of debt discount, premium and deferred issuance costs), including current maturities, as of (in thousands):

	September 30, 2017	December 31, 2016
Mortgage and loans payable	$ 2,668,249	$1,461,954
Senior notes	6,106,055	4,033,985

The fair value of the mortgage and loans payable was estimated by considering the Company's credit rating, current rates available to the Company for debt of the same remaining maturities and terms of the debt (Level 2). The fair value of the senior notes was based on quoted market prices (Level 1).

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Interest Charges
The following table sets forth total interest costs incurred and total interest costs capitalized for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Interest expense	$121,828	$92,200	$352,554	$293,395
Interest capitalized	6,174	3,234	20,573	9,479
Interest charges incurred	$128,002	$95,434	$373,127	$302,874

Total interest paid, net of capitalized interest, during the three months ended September 30, 2017 and 2016 was $122.8 million and $107.9 million, respectively. Total interest paid, net of capitalized interest, during the nine months ended September 30, 2017 and 2016 was $321.8 million and $262.1 million, respectively.

10. Commitments and Contingencies
Purchase Commitments
Primarily as a result of the Company's various IBX data center expansion projects, as of September 30, 2017, the Company was contractually committed for $336.8 million of unaccrued capital expenditures, primarily for IBX infrastructure equipment not yet delivered and labor not yet provided, in connection with the work necessary to open these IBX data centers and make them available to customers for installation. In addition, the Company had numerous other, non-capital purchase commitments in place as of September 30, 2017, such as commitments to purchase power in select locations through the remainder of 2017 and thereafter, and other open purchase orders for goods or services to be delivered or provided during the remainder of 2017 and thereafter. Such other miscellaneous purchase commitments totaled $592.4 million as of September 30, 2017.
Contingent Liabilities
The Company estimates exposure on certain liabilities, such as indirect and property taxes, based on the best information available at the time of determination. With respect to real and personal property taxes, the Company records what it can reasonably estimate based on prior payment history, current landlord estimates or estimates based on current or changing fixed asset values in each specific municipality, as applicable. However, there are circumstances beyond the Company’s control whereby the underlying value of the property or basis for which the tax is calculated on the property may change, such as a landlord selling the underlying property of one of the Company’s IBX data center leases or a municipality changing the assessment value in a jurisdiction and, as a result, the Company’s property tax obligations may vary from period to period. Based upon the most current facts and circumstances, the Company makes the necessary property tax accruals for each of its reporting periods. However, revisions in the Company’s estimates of the potential or actual liability could materially impact its financial position, results of operations or cash flows.
The Company's indirect and property tax filings in various jurisdictions are subject to examination by local tax authorities. The outcome of any examinations cannot be predicted with certainty. The Company regularly assesses the likelihood of adverse outcomes resulting from these examinations that would affect the adequacy of its tax accruals for each of the reporting periods. If any issues arising from the tax examinations are resolved in a manner inconsistent with the Company’s expectations, the revision of the estimates of the potential or actual liabilities could materially impact its financial position, results of operations, or cash flows.

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11. Stockholders' Equity
Accumulated Other Comprehensive Loss
The changes in accumulated other comprehensive loss, net of tax, by components are as follows (in thousands):

	Balance as of December 31, 2016	Net Change	Balance as of September 30, 2017
Foreign currency translation adjustment ("CTA") gain (loss)	$ (1,031,129)	$ 408,830	$ (622,299)
Unrealized gain (loss) on cash flow hedges [1]	30,704	(52,468)	(21,764)
Unrealized gain (loss) on available-for-sale securities [2]	2,110	(85)	2,025
Net investment hedge CTA gain (loss) [1]	49,989	(191,121)	(141,132)
Net actuarial gain (loss) on defined benefit plans [3]	(816)	39	(777)
Total	$ (949,142)	$ 165,195	$ (783,947)

(1) Refer to Note 6 for a discussion of the amounts reclassified from accumulated other comprehensive income (loss) to net income (loss).
(2) No realized gains and losses were reclassified from accumulated other comprehensive income (loss) to net income (loss) for the nine months ended September 30, 2017.
(3) The Company has a defined benefit pension plan covering all employees in one country where such plan is mandated by law. The Company does not have any defined benefit plans in any other countries. The unamortized gain (loss) on defined benefit plans includes gains or losses resulting from a change in the value of either the projected benefit obligation or the plan assets resulting from a change in an actuarial assumption, net of amortization.

Changes in foreign currency exchange rates can have a significant impact to the Company's condensed consolidated balance sheets (as evidenced above in the Company's foreign currency translation gain or loss), as well as its condensed consolidated results of operations, as amounts in foreign currencies generally translate into more U.S. dollars when the U.S. dollar weakens or less U.S. dollars when the U.S. dollar strengthens. As of September 30, 2017, the U.S. dollar was generally weaker relative to certain of the currencies of the foreign countries in which the Company operates as compared to December 31, 2016. This overall weakening of the U.S. dollar had an overall favorable impact on the Company's condensed consolidated financial position because the foreign denominations translated into more U.S. dollars as evidenced by an increase in foreign currency translation gain for the nine months ended September 30, 2017 as reflected in the above table. In future periods, the volatility of the U.S. dollar as compared to the other currencies in which the Company operates could have a significant impact on its condensed consolidated financial position and results of operations including the amount of revenue that the Company reports in future periods.

Common Stock

In August 2017, the Company entered into an equity distribution agreement with RBC Capital Market, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and J.P. Morgan Securities LLC, establishing an "at the market" equity offering program, under which the Company may offer and sell from time to time up to an aggregate of $750.0 million of its common stock in "at the market" transactions (the "ATM Program"). No sales have been made under the ATM Program to date.

In March 2017, the Company issued and sold 6,069,444 shares of its common stock in a public offering pursuant to a registration statement and a related prospectus and prospectus supplement, in each case filed with the SEC. The shares issued and sold included the full exercise of the underwriters' option to purchase 791,666 additional shares. The Company received net proceeds of approximately $2,126.3 million, after deducting underwriting discounts and commissions of $57.9 million and offering expenses of $0.8 million.

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Dividends

On August 2, 2017, the Company declared a quarterly cash dividend of $2.00 per share, with a record date of August 23, 2017 and a payment date of September 20, 2017. During the three months ended September 30, 2017, the Company paid a total of $159.5 million in dividends. In addition, the Company accrued an additional $2.7 million in dividends payable for restricted stock units that have not yet vested.

On April 26, 2017, the Company declared a quarterly cash dividend of $2.00 per share, with a record date of May 24, 2017 and a payment date of June 21, 2017. During the three months ended June 30, 2017, the Company paid a total of $156.3 million in dividends. In addition, the Company accrued an additional $2.7 million in dividends payable for restricted stock units that have not yet vested.

On February 15, 2017, the Company declared a quarterly cash dividend of $2.00 per share, with a record date of February 27, 2017 and a payment date of March 22, 2017. During the three months ended March 31, 2017, the Company paid a total of $148.1 million in dividends. In addition, the Company accrued an additional $2.6 million in dividends payable for restricted stock units that have not yet vested.

Stock-Based Compensation

For the nine months ended September 30, 2017, the Compensation Committee and the Stock Award Committee of the Company's Board of Directors approved the issuance of an aggregate of 511,548 shares of restricted stock units to certain employees, including executive officers, pursuant to the 2000 Equity Incentive Plan, as part of the Company's annual refresh program. These equity awards are subject to vesting provisions and have a weighted-average grant date fair value of $367.23 and a weighted-average requisite service period of 3.48 years. The valuation of restricted stock units with only a service condition or a service and performance condition requires no significant assumptions as the fair value for these types of equity awards is based solely on the fair value of the Company's stock price on the date of grant. The Company used revenues and adjusted funds from operations ("AFFO") as the performance measurements in the restricted stock units with both service and performance conditions that were granted in the first nine months ended September 30, 2017.

The Company uses a Monte Carlo simulation option-pricing model to determine the fair value of restricted stock units with a service and market condition. There were no significant changes in the assumptions used to determine the fair value of restricted stock units with a service and market condition that were granted in 2017 compared to the prior year.

The following table presents, by operating expense category, the Company's stock-based compensation expense recognized in the Company's condensed consolidated statements of operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Cost of revenues	$3,911	$3,316	$10,000	$9,754
Sales and marketing	13,847	11,702	38,245	32,187
General and administrative	27,896	27,455	81,357	74,370
Total	$45,654	$42,473	$129,602	$116,311

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12. Segment Information

While the Company has a single line of business, which is the design, build-out and operation of IBX data centers, it has determined that it has three reportable segments comprised of its Americas, EMEA and Asia-Pacific geographic regions. The Company's chief operating decision-maker evaluates performance, makes operating decisions and allocates resources based on the Company's revenues and adjusted EBITDA performance both on a consolidated basis and based on these three reportable segments. The Company defines adjusted EBITDA as income from operations plus depreciation, amortization, accretion, stock-based compensation expense, restructuring charges, impairment charges, acquisition costs and gains on asset sales as presented below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Adjusted EBITDA:				
Americas	$292,101	$202,131	$748,871	$581,619
EMEA	146,464	121,468	417,640	366,412
Asia-Pacific	111,754	96,443	320,690	272,952
Total adjusted EBITDA	550,319	420,042	1,487,201	1,220,983
Depreciation, amortization and accretion expense	(277,719)	(215,370)	(749,118)	(631,242)
Stock-based compensation expense	(45,654)	(42,473)	(129,602)	(1