EQUINIX INC
Form 10-Q
August 08, 2016

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 June 30, 2016
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 or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨
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 August 5, 2016 was 71,074,567.

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PART I - FINANCIAL INFORMATION
Item 1. Condensed Consolidated Financial Statements
EQUINIX, INC.
Condensed Consolidated Balance Sheets
(in thousands)

	June 30, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$483,160	$2,228,838
Short-term investments	3,328	12,875
Accounts receivable, net	346,994	291,964
Current portion of restricted cash	3,411	479,417
Other current assets	233,870	212,929
Assets held for sale	1,024,666	33,257
Total current assets	2,095,429	3,259,280
Long-term investments	7,694	4,584
Property, plant and equipment, net	6,958,794	5,606,436
Goodwill	3,190,197	1,063,200
Intangible assets, net	788,955	224,565
Other assets	227,976	198,630
Total assets	$13,269,045	$10,356,695
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$498,212	$400,948
Accrued property, plant and equipment	163,388	103,107
Current portion of capital lease and other financing obligations	92,611	40,121
Current portion of mortgage and loans payable	511,331	770,236
Convertible debt	—	146,121
Other current liabilities	142,113	192,286
Liabilities held for sale	152,124	3,535
Total current liabilities	1,559,779	1,656,354
Capital lease and other financing obligations, less current portion	1,514,804	1,287,139
Mortgage and loans payable, less current portion	1,074,663	472,769
Senior notes	3,807,816	3,804,634
Other liabilities	606,518	390,413
Total liabilities	8,563,580	7,611,309
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock	71	62
Additional paid-in capital	7,307,575	4,838,444
Treasury stock	(148,246)	(7,373)
Accumulated dividends	(1,715,533)	(1,468,472)
Accumulated other comprehensive loss	(643,786)	(509,059)
Accumulated deficit	(94,616)	(108,216)
Total stockholders' equity	4,705,465	2,745,386
Total liabilities and stockholders' equity	$13,269,045	$10,356,695

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Revenues	$900,510	$665,582	$1,744,666	$1,308,756
Costs and operating expenses:				
Cost of revenues	456,967	315,757	884,647	614,070
Sales and marketing	107,832	81,248	214,422	159,864
General and administrative	168,462	119,578	334,366	233,218
Acquisition costs	15,594	9,866	52,130	11,022
Gains on asset sales	—	—	(5,242)	—
Total costs and operating expenses	748,855	526,449	1,480,323	1,018,174
Income from continuing operations	151,655	139,133	264,343	290,582
Interest income	841	921	1,766	1,441
Interest expense	(100,332)	(74,496)	(201,195)	(143,287)
Other income (expense)	1,555	1,386	(59,155)	872
Loss on debt extinguishment	(605)	—	(605)	—
Income from continuing operations before income taxes	53,114	66,944	5,154	149,608
Income tax expense	(13,812)	(7,485)	(3,179)	(13,697)
Net income from continuing operations	39,302	59,459	1,975	135,911
Net income from discontinued operations, net of tax	5,409	—	11,625	—
Net income	$44,711	$59,459	$13,600	$135,911
Earnings per share (“EPS”):				
Basic EPS from continuing operations	$0.56	$1.04	$0.03	$2.39
Basic EPS from discontinued operations	0.08	—	0.17	—
Basic EPS	$0.64	$1.04	$0.20	$2.39
Weighted-average shares	69,729	56,935	68,931	56,798
Diluted EPS from continuing operations	$0.56	$1.03	$0.03	$2.37
Diluted EPS from discontinued operations	0.08	—	0.17	—
Diluted EPS	$0.64	$1.03	$0.20	$2.37
Weighted-average shares for diluted EPS	70,364	57,499	69,575	57,410

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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	(Unaudited)			
Net income	$44,711	$59,459	$13,600	$135,911
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment ("CTA") gain (loss)	(298,361)	69,443	(182,462)	(76,869)
Unrealized gain on available-for-sale securities	1,199	17	895	120
Unrealized gain (loss) on cash flow hedges	14,726	(14,290)	7,942	(3,734)
Net investment hedge CTA gain (loss)	55,196	(10,389)	38,884	(10,389)
Net actuarial gain on defined benefit plans	8	83	14	142
Total other comprehensive income (loss), net of tax	(227,232)	44,864	(134,727)	(90,730)
Comprehensive income (loss), net of tax	$(182,521)	$104,323	$(121,127)	$45,181

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)

	Six months ended June 30,	
	2016	2015
	(Unaudited)	
Cash flows from operating activities:		
Net income	$13,600	$135,911
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	352,130	236,267
Stock-based compensation	73,384	64,606
Amortization of intangible assets	60,455	12,745
Amortization of debt issuance costs and debt discounts	11,025	7,585
Provision for allowance for doubtful accounts	3,648	2,890
Gains on asset sales	(5,242)	—
Loss on debt extinguishment	318	—
Other items	11,821	8,006
Changes in operating assets and liabilities:		
Accounts receivable	(42,367)	(41,782)
Income taxes, net	(23,755)	(66,147)
Accounts payable and accrued expenses	(10,625)	49,293
Other assets and liabilities	(61,294)	35,900
Net cash provided by operating activities	383,098	445,274
Cash flows from investing activities:		
Purchases of investments	(16,482)	(324,292)
Sales of investments	28,665	718,121
Maturities of investments	—	35,431
Business acquisitions, net of cash acquired	(1,601,627)	(10,247)
Purchases of real estate	(28,118)	(38,282)
Purchases of other property, plant and equipment	(447,567)	(371,462)
Proceeds from sale of assets	22,825	—
Changes in restricted cash	466,587	(507,645)
Net cash used in investing activities	(1,575,717)	(498,376)
Cash flows from financing activities:		
Proceeds from employee equity awards	17,639	16,565
Payment of dividends	(246,694)	(192,968)
Proceeds from loans payable	701,250	490,000
Repayment of capital lease and other financing obligations	(45,335)	(13,638)
Repayment of mortgage and loans payable	(973,111)	(518,629)
Other financing activities	(42)	314
Net cash used in financing activities	(546,293)	(218,356)
Effect of foreign currency exchange rates on cash and cash equivalents	18,345	(3,326)
Change in cash balances included in assets held for sale	(25,111)	—
Net decrease in cash and cash equivalents	(1,745,678)	(274,784)
Cash and cash equivalents at beginning of period	2,228,838	610,917
Cash and cash equivalents at end of period	$483,160	$336,133

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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, 2015 has been derived from audited consolidated financial statements as of that date. The 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 (“GAAP”). For further information, refer to the Consolidated Financial Statements and Notes thereto included in Equinix’s Form 10-K as filed with the SEC on February 26, 2016. 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 Telecity Group plc (“TelecityGroup”) from January 15, 2016, Bit-isle Inc. (“Bit-isle”) from November 2, 2015 and Nimbo Technologies Inc. (“Nimbo”) from January 14, 2015. All significant intercompany accounts and transactions have been eliminated in consolidation.

Income Taxes

The Company began operating as a real estate investment trust for federal income tax purposes ("REIT") effective January 1, 2015. In May 2015, the Company received a favorable response to a private letter ruling (“PLR”) it had requested from the U.S. Internal Revenue Service (“IRS”) in connection with the Company’s conversion to a REIT for federal income tax purposes. As a result, the Company may deduct the distributions made to its shareholders from taxable income generated by the Company and its qualified REIT subsidiaries (“QRSs”). The Company’s dividends paid deduction generally eliminates the taxable income of the Company and its QRSs, resulting in no U.S. income tax due. However, the Company's taxable REIT subsidiaries (“TRSs”) will continue to be subject to income taxes on any taxable income generated by them. In addition, the foreign operations of the Company will continue to be subject to local income taxes regardless of whether the foreign operations are operated as a QRS or a 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 61.7% and 9.2% for the six months ended June 30, 2016 and 2015, respectively. The increase in the effective tax rate for the six months in 2016 as compared to the same period in 2015 is primarily due to a much lower profit before tax for the period, attributable to the non-tax deductible costs related to the TelecityGroup acquisition and an increase in valuation allowance.

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.

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Recent Accounting Pronouncements

Accounting Standards Not Yet Adopted

In June 2016, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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 is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

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 fiscal years beginning after December 15, 2016, and interim periods within those annual periods, 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 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 should 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 is currently evaluating the impact that the adoption of this standard will have on its 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 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 is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("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. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. 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. ASU 2016-02 is effective for public companies for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. While the Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements, the Company believes this standard will have a significant impact on its consolidated financial statements due, in part, to the substantial amount of operating leases it has.

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 public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. 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 in August 2015, March 2016, April 2016 and May 2016 within ASU 2015-04, ASU 2016-08, ASU 2016-10 and ASU 2016-12, respectively (ASU 2014-09, ASU 2015-04, ASU 2016-08, ASU 2016-10, ASU 2016-11 and ASU 2016-12 collectively, 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, 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 for public entities is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company is currently evaluating the impact that the adoption of this standard will have on its consolidated financial statements.

Accounting Standards Adopted

In September 2015, the FASB issued ASU 2015-16, Business Combinations ("ASU 2015-16"), to simplify accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The amendments in this ASU require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization or other income effects as a result of changes to provisional amounts, calculated as if the accounting had been completed at the acquisition date. The Company adopted ASU 2015-16 in the three months ended March 31, 2016. The adoption of ASU 2015-16 did not have a significant impact on the Company's consolidated financial statements.

In May 2015, the FASB issued ASU 2015-07, Fair Value Measurement (“ASU 2015-07”), which permits a reporting entity, as a practical expedient, to measure the fair value of certain investments using the net asset value per share of the investment. This ASU is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years with early adoption permitted. A reporting entity should apply the amendment retrospectively to all periods presented. The retrospective approach requires that an investment for which fair value is measured using the net asset value per share practical expedient be removed from the fair value hierarchy in all periods presented in an entity’s financial statements. The Company adopted ASU 2015-07 in the three months ended March 31, 2016. The adoption of ASU 2015-07 did not have a significant impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Consolidations (“ASU 2015-02”). This ASU requires companies to adopt a new consolidation model, specifically: (1) the ASU modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities; (2) the ASU eliminates the presumption that a general partner should consolidate a limited partnership; (3) the ASU affects the consolidation analysis of reporting entities involved with VIEs and (4) the ASU provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. This ASU is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Company adopted ASU 2015-02 in the three months ended March 31, 2016. The adoption of ASU 2015-02 did not have a significant impact on the Company's consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement – Extraordinary and Unusual Items (“ASU 2015-01”), to simplify the income statement presentation requirements by eliminating the concept of extraordinary items. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company adopted ASU 2015-01 in the three months ended March 31, 2016. The adoption of ASU 2015-01 did not have a significant impact on the Company's 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 June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Net income:				
Net income from continuing operations	$39,302	$59,459	$1,975	$135,911
Net income from discontinued operations	5,409	—	11,625	—
Net income	$44,711	$59,459	$13,600	$135,911
Weighted-average shares used to calculate basic EPS	69,729	56,935	68,931	56,798
Effect of dilutive securities:				
Employee equity awards	635	564	644	612
Weighted-average shares used to calculate diluted EPS	70,364	57,499	69,575	57,410
Basic EPS:				
Continuing operations	$0.56	$1.04	$0.03	$2.39
Discontinued operations	0.08	—	0.17	—
Basic EPS	$0.64	$1.04	$0.20	$2.39
Diluted EPS:				
Continuing operations	$0.56	$1.03	$0.03	$2.37
Discontinued operations	0.08	—	0.17	—
Diluted EPS	$0.64	$1.03	$0.20	$2.37

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

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Shares reserved for conversion of 4.75% convertible subordinated notes	1,627	1,958	1,795	1,950
Common stock related to employee equity awards	7	99	3	95
	1,634	2,057	1,798	2,045

3. Acquisitions

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 enhances the Company's existing data center portfolio by adding new IBX metro markets in Europe including Dublin, Helsinki, Istanbul,

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Manchester, Milan, Sofia, Stockholm and Warsaw. As a result of the transaction, TelecityGroup has become a wholly-owned subsidiary of Equinix.

Under the terms of the acquisition, the Company acquired all outstanding shares of TelecityGroup 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 £2,624,500,000 or approximately $3,743,587,000. In addition, the Company assumed $1,299,000 of vested TelecityGroup's employee equity awards as part of consideration transferred. The Company incurred acquisition costs of approximately $14,370,000 and $50,555,000 during the three and six months ended June 30, 2016 related to the TelecityGroup acquisition.

In connection with the TelecityGroup acquisition, the Company placed £322,851,000 or approximately $475,689,000 into a restricted cash account, which was included in the current portion of restricted cash in the condensed consolidated balance sheet as of December 31, 2015. The cash was released upon completion of the acquisition.

Also, in connection with TelecityGroup acquisition, the Company entered into a bridge credit agreement with J.P. Morgan Chase Bank, N.A. ("JPMCB") as the initial lender and as administrative agent for the lenders for a principal amount of £875,000,000 or approximately $1,289,000,000 at the exchange rate in effect on December 31, 2015 (the "Bridge Loan"). The Company did not make any borrowings under the Bridge Loan and the Bridge Loan was terminated on January 8, 2016.

The Company has initially designated the legal entities acquired in the TelecityGroup acquisition as TRSs.

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. As of the date of this quarterly report, the Company has not completed the detailed valuation analysis to derive the fair value of the following items including, but not limited to, intangible assets, accounting for lease contracts; asset retirement obligations; favorable leasehold interests; assets and liabilities held for sale, deferred revenue; property, plant and equipment; accruals and taxes. Therefore, the allocation of the purchase price to acquired assets and liabilities is based on provisional estimates and is subject to continuing management analysis, with assistance of third party valuation advisers. As of the acquisition date, the preliminary allocation of the purchase price is as follows (in thousands):

Cash and cash equivalents	$73,368
Accounts receivable	24,042
Other current assets	34,583
Assets held for sale	892,169
Property, plant and equipment	1,055,667
Goodwill	2,264,789
Intangible assets	657,485
Deferred tax assets	1,198
Other assets	4,123
Total assets acquired	5,007,424
Accounts payable and accrued expenses	(90,589)
Accrued property, plant and equipment	(3,634)
Other current liabilities	(27,259)
Liabilities held for sale	(156,169)
Capital lease and other financing obligations	(199,809)
Mortgage and loans payable	(592,304)
Deferred tax liabilities	(159,701)
Other liabilities	(33,073)
Net assets acquired	$3,744,886

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

The preliminary 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	$563,428	13.5	13.5
Trade names	72,033	1.5	1.5
Favorable leases	22,024	2.4 - 33.0	13.6

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 it relates 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 other acquired identifiable intangible assets were 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 live. There are two primary methods of applying the income approach to determine the fair value 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 that 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 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 asset held for sale, is attributable to the Company’s EMEA region.

For the three months ended June 30, 2016, the Company's results of continuing operations include TelecityGroup revenues of $107,246,000 and net loss from continuing operations of $35,858,000. For the six months ended June 30, 2016, the Company's results of continuing operations include TelecityGroup revenues of $191,685,000 and net loss from continuing operations of $38,679,000 for the period January 15, 2016 through June 30, 2016.

Bit-isle Acquisition

On November 2, 2015, the Company completed a cash tender offer for approximately 97% of the equity instruments, including stock options, of Tokyo-based Bit-isle. The Company acquired the remaining outstanding equity instruments of Bit-isle in December 2015. The offer price was JPY 922 per share, in an all cash transaction totaling approximately $275,367,000. The Company acquired Bit-isle to expand additional data centers in Japan for customer's future expansion needs.

On September 30, 2015, the Company entered into a term loan agreement (the “Bridge Term Loan Agreement”) with the Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”). Pursuant to the Bridge Term Loan Agreement, BTMU committed to provide a senior bridge loan facility (the “Bridge Term Loan”) in the amount of up to ¥47,500,000,000, or approximately $459,800,000 in U.S. dollars at the exchange rate in effect on June 30, 2016. Proceeds from the Bridge Term Loan were to be used exclusively for the acquisition of Bit-isle, the repayment of Bit-isle’s existing debt and transaction costs incurred in connection with the closing of the Bridge Term Loan and the acquisition of Bit-isle.

The Company included Bit-isle’s results of operations from November 2, 2015 and the estimated fair value of assets acquired and liabilities assumed in its consolidated balance sheets beginning November 2, 2015.

The Company has initially designated the legal entities acquired in the Bit-isle acquisition as TRSs.

Purchase Price Allocation

Under the acquisition method of accounting, the total purchase price was allocated to Bit-isle’s net tangible and intangible assets based upon their fair value as of the Bit-isle acquisition date. Under the accounting guidance, the Company can adjust the fair value of acquired assets and liabilities assumed in the measurement period, as it obtains new information regarding the facts and circumstances that existed at the acquisition date. Based upon the purchase price and the valuation of Bit-isle, the purchase price allocation was as follows (in thousands):

Cash and cash equivalents	$33,198
Accounts receivable	7,359
Other current assets	51,038
Long-term investments	3,806
Property, plant and equipment	308,985
Goodwill	95,444
Intangible assets	111,374
Other assets	22,981
Total assets acquired	634,185
Accounts payable and accrued expenses	(15,028)
Accrued property, plant and equipment	(465)
Capital lease and other financing obligations	(108,833)
Mortgage and loans payable	(190,227)
Other current liabilities	(8,689)
Deferred tax liabilities	(32,192)
Other liabilities	(3,384)
Net assets acquired	$275,367

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)
Customer relationships	$105,434	13	13
Trade name	3,455	2	2
Favorable solar contracts	2,410	18	18
Other intangible assets	75	0.25	0.25

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

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revenue. The Company applied a weighted-average discount rate of approximately 11.0%, which reflected the nature of the assets as it relates 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 Bit-isle 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 12.0%. The other acquired identifiable intangible assets were estimated by applying an income 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 live. There are two primary methods of applying the income approach to determine the fair value 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 that 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 Bit-isle Acquisition by estimating Bit-isle's debt rating and reviewed market data with a similar debt rating and other characteristics of the debt, including the maturity date and security type. During the year ended December 31, 2015, the Company prepaid and terminated the majority of 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 consolidated statement of operations for the year ended December 31, 2015.

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 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 Bit-isle acquisition is attributable to the Company's Asia-Pacific region. For the three and six months ended June 30, 2016, the Company's results of continuing operations include Bit-isle revenues of $37,294,000 and $71,498,000 and Bit-isle net losses of $3,532,000 and $7,745,000.

Nimbo Acquisition

On January 14, 2015, the Company acquired all of the issued and outstanding share capital of Nimbo, a company which specializes in migrating business applications to the cloud with extensive experience moving legacy applications into a hybrid cloud architecture, and connecting legacy data centers to the cloud, for a cash payment of $10,000,000 and a contingent earn-out arrangement to be paid over two years (the "Nimbo Acquisition"). Subsequent to the acquisition, Nimbo adopted the name Equinix Professional Services for Cloud. The Nimbo Acquisition was accounted for using the acquisition method. As a result of the Nimbo Acquisition, the Company recorded goodwill of $17,192,000, which represents the excess of the total purchase price over the fair value of the assets acquired and liabilities assumed. The Company recorded the contingent earn-out arrangement at its estimated fair value. The results of operations for Nimbo are not significant to the Company; therefore, the Company does not present its purchase price allocation or pro forma combined results of operations. In addition, any prospective changes in the Company's earn-out estimates are not expected to have a material effect on the Company's consolidated statement of operations.

Unaudited Pro Forma Combined Consolidated Financial Information

The following unaudited pro forma combined consolidated financial information has been prepared by the Company using the acquisition method of accounting to give effect to the TelecityGroup and Bit-isle acquisitions as though the acquisitions occurred on January 1, 2015. The Company completed the TelecityGroup acquisition on January 15,

2016. The operating results of TelecityGroup were included in the condensed consolidated statement of operations for the three months ended June 30, 2016. TelecityGroup's operating results for the period January 15, 2016 through June 30, 2016 were included in the condensed consolidated statement of operations for the six months ended June 30, 2016. The pro forma effect for the period January 1 through January 14, 2016 was insignificant. The unaudited pro forma combined consolidated financial information reflects certain adjustments, such as additional depreciation, amortization and interest expense on assets and liabilities acquired.

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The unaudited pro forma combined consolidated 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 acquisitions occurred on the above dates, nor is it necessarily indicative of the future results of operations of the combined company.
The following table sets forth the unaudited pro forma consolidated combined results of operations for the three and six months ended June 30, 2015 (in thousands):

	Three months ended June 30, 2015	Six months ended June 30, 2015
Revenues	$796,850	$1,570,851
Net income from continuing operations	40,047	91,769
Basic EPS	0.63	1.44
Diluted EPS	0.62	1.43

4. Assets Held for Sale
During the fourth quarter of 2015, the Company entered into an agreement to sell a parcel of land in San Jose, California and reported the San Jose land parcel as an asset held for sale in the accompanying consolidated balance sheet as of December 31, 2015. The sale was completed in February 2016.
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, including the Company's LD2 data center and certain data centers of TelecityGroup in the United Kingdom, Netherlands and Germany. 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 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 acquisition. During the three months ended June 30, 2016 and 2015, LD2 generated revenue of $2,950,000 and $4,746,000, respectively. Net income generated by LD2 during the three months ended June 30, 2016 was insignificant. Net income generated by LD2 during the three months ended June 30, 2015 was $2,006,000. During the six months ended June 30, 2016 and 2015, LD2 generated revenue of $6,116,000 and $9,429,000, respectively. Net income generated by LD2 during the six months ended June 30, 2016 and 2015 was $2,327,000 and $3,880,000, respectively.
The acquisition of TelecityGroup closed on January 15, 2016. Accordingly, the assets and liabilities of the TelecityGroup data centers that were divested were included in assets and liabilities held for sale in the condensed consolidated balance sheet as of June 30, 2016. The results of operations for the TelecityGroup data centers that were divested were classified as discontinued operations from January 15, 2016, the date the acquisition closed, through June 30, 2016. This divestiture transaction closed on July 5, 2016 (see Note 13).
In June 2016, the Company approved the divestiture of the solar power assets of Bit-isle. The assets and liabilities of the solar power assets that will be divested were included in assets and liabilities held for sale in the condensed consolidated balance sheet as of June 30, 2016. During the three and six months ended June 30, 2016, the revenues and net income generated from solar power assets were insignificant.
When an asset is classified as held for sale, the asset's book value is evaluated and adjusted to the lower of its carrying amount or fair value less cost to sell. The determination of fair value for assets is dependent upon, among other factors, the potential sales transaction, composition of assets in the disposal group, the comparability of the disposal group to market transactions and negotiations with third party purchasers, etc. Such factors impact the range of potential fair values and the selection of the best estimates. As of June 30, 2016 and December 31, 2015, the Company determined that assets held for sale had not been impaired.

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The following table summarizes assets and liabilities that were classified in assets and liabilities held for sale as of June 30, 2016 and December 31, 2015 (in thousands):

	June 30, 2016	December 31, 2015
Cash	$25,111	$ —
Accounts receivable	15,470	2,222
Other current assets	78,013	408
Property, plant and equipment	238,742	23,533
Goodwill	461,558	5,000
Intangible assets	199,062	784
Other assets	6,710	1,310
Total assets held for sale	1,024,666	$ 33,257
Accounts payable, accrued expenses and estimated costs to sell	$(46,355)	$ (654)
Accrued property, plant and equipment	(13,151)	(816)
Current portion of capital lease and other financing obligation	(36,835)	—
Other current liabilities	(27,167)	(435)
Capital lease and other financing obligations, less current portion	(18,561)	—
Other liabilities	(10,055)	(1,630)
Total liabilities held for sale	$(152,124)	$ (3,535)

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. 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. Accordingly, 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 the acquisition, through June 30, 2016 in the Company's condensed consolidated statement of operations. This divestiture transaction closed on July 5, 2016 (see Note 13).

The following table presents the financial results of the discontinued operations:

	Three months ended June 30,	Six months ended June 30,
Revenues	$30,401	$50,982
Costs and operating expenses:		
Cost of revenues	13,490	25,100
Sales and marketing	979	1,196
General and administrative	6,920	7,303
Total costs and operating expenses	21,389	33,599
Income from operations of discontinued operations	9,012	17,383
Interest and other, net	(708)	(1,177)
Income from discontinued operations before income taxes	8,304	16,206
Income tax expense	(2,895)	(4,581)
Income from discontinued operations, net of income taxes	$5,409	$11,625

Net cash used in operating activities for discontinued operations was $2,955,000 and net cash used in investing activities for discontinued operations was $35,701,000 for the period ended June 30, 2016.

No gain or loss on the disposition of the assets and liabilities of these data centers has been recognized in the condensed consolidated financial statements.

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 in investments in its wholly-owned foreign subsidiaries that are denominated in currencies other than the U.S. dollar. In order to mitigate the volatility in foreign currency exchange rates, the Company has entered into various foreign currency loans which are designated as hedges against the Company's net investment in foreign subsidiaries. In April 2015, the Company entered into a foreign currency term loan ("Term Loan A") and designated 100% of the Term Loan A to hedge its net investments in its wholly-owned foreign subsidiaries that are denominated in the same foreign currencies as the term loan. In December 2015, the Company terminated hedging its net investment in subsidiaries that are denominated in Swiss Francs. In January 2016, the Company borrowed the full amount of the $250,000,000 and £300,000,000 seven year term loan commitments made available to it under the second amendment to the Company's Senior Credit Facility ("Term Loan B"). The Company designated the portion of Term Loan B that is denominated in the British pound to hedge the net investments in its wholly-owned foreign subsidiaries. In March 2016, the Company began using foreign exchange forward contracts to hedge against the effect of foreign exchange rate fluctuations on a portion of its net investment in the EMEA operations. The total principal amount of foreign currency loans outstanding as of June 30, 2016 and December 31, 2015, which were designated as net investment hedges, was $793,264,000 and $411,881,000, respectively. For a net investment hedge, most changes in the fair value of the hedging instrument designated as a net investment hedge, except the ineffective portion, are recorded as a component of other comprehensive income in the condensed consolidated balance sheet. The Company recorded net foreign exchange gains of $55,196,000 and $38,884,000 in other comprehensive income (loss) for the three and six months ended June 30, 2016 and foreign exchange losses of $10,389,000 in other comprehensive income (loss) for the three and six months ended June 30, 2015. The Company recorded no ineffectiveness from its net investment hedges for the three and six months ended June 30, 2016 and 2015.

Cash Flow Hedges. The Company hedges its exposure to foreign currency exchange rate fluctuations for forecasted revenues and expenses in its EMEA region in order to help manage the Company’s exposure to foreign currency exchange rate fluctuations between the U.S. dollar and the British Pound, Euro 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 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.

Effective January 1, 2015, the Company entered into intercompany hedging instruments (“intercompany derivatives”) with a wholly-owned subsidiary of the Company and simultaneously entered into derivative contracts with unrelated parties to hedge certain forecasted revenues and expenses denominated in currencies other than the U.S. dollar.

The following disclosure is prepared on a consolidated basis. Assets and liabilities resulting from intercompany derivatives have been eliminated in consolidation.

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As of June 30, 2016, the Company's cash flow hedges had maturity dates ranging from July 2016 to June 2018 as follows (in thousands):

	Notional Amount	Fair Value [1]	Accumulated other comprehensive income (loss) [2] [3]
Derivative assets	$480,206	$ 29,714	$ 58,953
Derivative liabilities	120,003	(1,849)	(33,494)
	$600,209	$ 27,865	$ 25,459

(1) All derivative assets 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 $16,742 within accumulated other comprehensive income (loss) relating to cash flow hedges that will be reclassified to revenue and expenses as they mature in the next 12 months.

As of December 31, 2015, the Company's cash flow hedges had maturities dates ranging from January 2016 to December 2017 as follows (in thousands):

	Notional Amount	Fair Value [1]	Accumulated other comprehensive income (loss) [2][3]
Derivative assets	$367,330	$ 16,027	$ 34,578
Derivative liabilities	47,447	(813)	(19,709)
	$414,777	$ 15,214	$ 14,869

(1) All derivative assets 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 $12,940 within accumulated other comprehensive income (loss) relating to cash flow hedges that will be reclassified to revenue and expense as they mature over the next 12 months.

During the three months ended June 30, 2016 and 2015, the ineffective and excluded portions of cash flow hedges recognized in other income (expense) were not significant. During the three months ended June 30, 2016, the amount of net gains reclassified from accumulated other comprehensive income (loss) to revenue was $6,161,000 and the amount of net losses reclassified from accumulated other comprehensive income (loss) to operating expenses was $2,846,000. During the three months ended June 30, 2015, the amount of net gains reclassified from accumulated other comprehensive income (loss) to revenue was $7,428,000 and the amount of net losses reclassified from accumulated other comprehensive income (loss) to operating expenses were not significant.

During the six months ended June 30, 2016 and 2015, the ineffective and excluded portions of cash flow hedges recognized in other income (expense) were not significant. During the six months ended June 30, 2016, the amount of net gains reclassified from accumulated other comprehensive income (loss) to revenue was $12,608,000 and the amount of net losses reclassified from accumulated other comprehensive income (loss) to operating expenses was $6,677,000. During the six months ended June 30, 2015, the amount of net gains reclassified from accumulated other comprehensive income (loss) to revenue was $15,506,000 and the amount of net losses reclassified from accumulated other comprehensive income (loss) to operating expenses was $2,983,000.

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 June 30, 2016, gains (losses) associated with

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these embedded derivatives were not significant. During the three months ended June 30, 2015, the losses associated with these embedded derivatives were $2,057,000. During the six months ended June 30, 2016, the losses associated with these embedded derivatives were $8,061,000. During the six months ended June 30, 2015, gains (losses) associated with these embedded derivatives were not significant.

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 in revenues along with gains and losses of the related embedded derivatives. The Company entered into various economic hedges of embedded derivatives during the three and six months ended June 30, 2016 and 2015. During the three months ended June 30, 2016, the gains (losses) associated with these contracts were not significant. During the six months ended June 30, 2016, the gains associated with these contracts were $5,578,000. During the three and six months ended June 30, 2015, the gains (losses) from these contracts were not significant.

Foreign Currency Forward and Option Contracts. The Company also uses foreign currency forward and option contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities. As a result of foreign currency fluctuations, the U.S. dollar equivalent values of its foreign currency-denominated assets and liabilities change. Gains and losses on these contracts are included in other income (expense), net, 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 six months ended June 30, 2016 and 2015. During the three and six months ended June 30, 2016, the Company recognized net gains of $49,072,000 and $41,480,000, respectively, associated with these contracts. During the three and six months ended June 30, 2015, the Company recognized net losses of $12,719,000 and $2,462,000, respectively, associated with these contracts.

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Offsetting Derivative Assets and Liabilities

The following table presents the fair value of derivative instruments recognized in the Company's condensed consolidated balance sheets as of June 30, 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	$ 29,714	$ —	$ 29,714	$ (1,745)	$ 27,969
Net Investment Hedges					
Foreign currency forward contracts	12,547	—	12,547	—	12,547
	42,261	—	42,261	(1,745)	40,516
Not designated as hedging instruments:					
Embedded derivatives	3,864	—	3,864	—	3,864
Economic hedges of embedded derivatives	2,719	—	2,719	(62)	2,657
Foreign currency forward contracts	42,840	—	42,840	(271)	42,569
	49,423	—	49,423	(333)	49,090
Additional netting benefit	—	—	—	(741)	(741)
	$ 91,684	$ —	$ 91,684	$ (2,819)	$ 88,865
Liabilities:					
Designated as hedging instruments					
Cash flow hedges					
Foreign currency forward contracts	$ 1,849	$ —	$ 1,849	$ (1,745)	$ 104
Net Investment Hedges					
Foreign currency forward contracts	—	—	—	—	—
	1,849	—	1,849	(1,745)	104
Not designated as hedging instruments:					
Embedded derivatives	4,281	—	4,281	—	4,281
Economic hedges of embedded derivatives	62	—	62	(62)	—
Foreign currency forward contracts	909	—	909	(271)	638
	5,252	—	5,252	(333)	4,919
Additional netting benefit	—	—	—	(741)	(741)
	$ 7,101	$ —	$ 7,101	$ (2,819)	$ 4,282

(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, 2015 (in thousands):

	Gross Amounts	Gross amounts offset in the balance sheet	Net balance sheet amounts [(1)]	Gross amounts not offset in the balance sheet [(2)]	Net
Assets:					
Designated as hedging instruments:					
Foreign currency forward and option contracts	$ 16,027	$ —	$ 16,027	$ (813)	$ 15,214
Not designated as hedging instruments:					
Embedded derivatives	8,926	—	8,926	—	8,926
Economic hedges of embedded derivatives	744	—	744	—	744
Foreign currency forward contracts	43,203	—	43,203	(34,577)	8,626
	52,873	—	52,873	(34,577)	18,296
Additional netting benefit	—	—	—	(9,512)	(9,512)
	$ 68,900	$ —	$ 68,900	$ (44,902)	$ 23,998
Liabilities:					
Designated as hedging instruments:					
Foreign currency forward and option contracts	$ 813	$ —	$ 813	$ (813)	$ —
Not designated as hedging instruments:					
Embedded derivatives	1,772	—	1,772	—	1,772
Economic hedges of embedded derivatives	417	—	417	—	417
Foreign currency forward contracts	76,923	—	76,923	(34,577)	42,346
	79,112	—	79,112	(34,577)	44,535
Additional netting benefit	—	—	—	(9,512)	(9,512)
	$ 79,925	$ —	$ 79,925	$ (44,902)	$ 35,023

(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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7. Fair Value Measurements

The Company’s financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 were as follows (in thousands):

	Fair value at June 30, 2016	Fair value measurement using Level 1	Level 2
Assets:			
Cash	$428,805	$428,805	$—
Money market and deposit accounts	51,169	51,169	—
Publicly traded equity securities	5,932	5,932	—
Certificates of deposit	8,276	—	8,276
Derivative instruments (1)	91,684	—	91,684
	$585,866	$485,906	$99,960
Liabilities:			
Derivative instruments (1)	$7,101	$—	$7,101

(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.

The Company’s financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 were as follows (in thousands):

	Fair value at December 31, 2015	Fair value measurement using Level 1	Level 2
Assets:			
Cash	$ 1,139,554	$1,139,554	$—
Money market and deposit accounts	1,089,284	1,089,284	—
Publicly traded equity securities	3,353	3,353	—
Certificates of deposit	14,106	—	14,106
Derivative instruments (1)	68,900	—	68,900
	$ 2,315,197	$2,232,191	$83,006
Liabilities:			
Derivative instruments (1)	$ 79,925	$—	$79,925

(1)