Section 1: 10-Q (10-Q)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

or

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

For the transition period from to

Commission File Number: 001-38231

Switch, Inc.
(Exact name of registrant as specified in its charter)

Nevada	**82-1883953**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
7135 S. Decatur Boulevard	
Las Vegas, NV	**89118**
(Address of principal executive offices)	(Zip Code)

(702) 444-4111
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Class A common stock, par value $0.001	**SWCH**	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ 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 the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☑	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 ☑

As of April 30, 2020, the registrant had 103,149,364 shares of Class A common stock, 138,467,056 shares of Class B common stock, and no shares of Class C common stock outstanding.

Switch, Inc.
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Part I. Financial Information

Item 1. Financial Statements (Unaudited).

Switch, Inc.
Consolidated Balance Sheets
(in thousands, except per share data)

	March 31, 2020 (unaudited)	December 31, 2019
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 64,711	$ 24,721
Accounts receivable, net of allowance for credit losses of $384 and $309, respectively	15,371	23,365
Prepaid expenses	6,683	7,137
Other current assets, net of allowance for credit losses of $6 and $0, respectively	4,436	3,817
Total current assets	91,201	59,040
Property and equipment, net	1,583,491	1,551,117
Long-term deposit	3,163	3,429
Deferred income taxes	131,255	114,372
Other assets, net of allowance for credit losses of $73 and $0, respectively	45,429	45,785
TOTAL ASSETS	$ 1,854,539	$ 1,773,743
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Long-term debt, current portion	$ 6,000	$ 6,000
Accounts payable	16,400	19,477
Accrued salaries and benefits	6,853	5,828
Accrued expenses	11,371	11,254
Accrued construction payables	28,476	37,269
Deferred revenue, current portion	15,826	14,991
Customer deposits	11,128	10,830
Interest rate swap liability, current portion	8,297	3,464
Operating lease liability, current portion	4,549	4,805
Finance lease liability, current portion	12	12
Total current liabilities	108,912	113,930
Long-term debt, net	814,074	745,372
Operating lease liability	25,117	26,142
Finance lease liability	57,588	57,614
Deferred revenue	24,756	27,852
Liabilities under tax receivable agreement	181,274	162,076
Other long-term liabilities	24,981	13,112
TOTAL LIABILITIES	1,236,702	1,146,098
Commitments and contingencies (Note 4)		
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value per share, 10,000 shares authorized, none issued and outstanding	—	—
Class A common stock, $0.001 par value per share, 750,000 shares authorized, 95,035 and 89,768 shares issued and outstanding, respectively	95	90
Class B common stock, $0.001 par value per share, 300,000 shares authorized, 146,410 and 151,047 shares issued and outstanding, respectively	146	151
Class C common stock, $0.001 par value per share, 75,000 shares authorized, none issued and outstanding	—	—
Additional paid in capital	217,124	204,711
(Accumulated deficit) retained earnings	(1,754)	2,420
Accumulated other comprehensive income	79	79
Total Switch, Inc. stockholders' equity	215,690	207,451
Noncontrolling interest	402,147	420,194
TOTAL STOCKHOLDERS' EQUITY	617,837	627,645
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,854,539	$ 1,773,743

The accompanying condensed notes are an integral part of these consolidated financial statements.

Switch, Inc.
Consolidated Statements of Comprehensive (Loss) Income
(in thousands, except per share data)
(unaudited)

	Three Months Ended March 31,	
	2020	2019
Revenue	$ 128,096	$ 107,442
Cost of revenue	67,029	57,525
Gross profit	61,067	49,917
Selling, general and administrative expense	40,116	34,251
Income from operations	20,951	15,666
Other income (expense):		
Interest expense, including $409 and $409, respectively, in amortization of debt issuance costs	(7,435)	(7,131)
Loss on interest rate swaps	(17,555)	(4,985)
Other	277	502
Total other expense	(24,713)	(11,614)
(Loss) income before income taxes	(3,762)	4,052
Income tax benefit (expense)	273	(206)
Net (loss) income	(3,489)	3,846
Less: net (loss) income attributable to noncontrolling interest	(2,273)	3,113
Net (loss) income attributable to Switch, Inc.	$ (1,216)	$ 733
Net (loss) income per share (Note 8):		
Basic	$ (0.01)	$ 0.01
Diluted	$ (0.01)	$ 0.01
Weighted average shares used in computing net (loss) income per share (Note 8):		
Basic	94,366	55,536
Diluted	94,366	247,364
Other comprehensive (loss) income:		
Foreign currency translation adjustment, net of tax of $0	—	—
Comprehensive (loss) income	(3,489)	3,846
Less: comprehensive (loss) income attributable to noncontrolling interest	(2,273)	3,113
Comprehensive (loss) income attributable to Switch, Inc.	$ (1,216)	$ 733

The accompanying condensed notes are an integral part of these consolidated financial statements.

Switch, Inc.
Consolidated Statements of Stockholders' Equity
(in thousands)
(unaudited)

	Switch, Inc. Stockholders' Equity								
	Class A Common Stock		Class B Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Stockholders' Equity
Balance—December 31, 2019	89,768	$ 90	151,047	$ 151	$ 204,711	$ 2,420	$ 79	$ 420,194	$ 627,645
Cumulative adjustment due to adoption of new credit loss standard	—	—	—	—	—	(67)	—	(82)	(149)
Net loss	—	—	—	—	—	(1,216)	—	(2,273)	(3,489)
Equity-based compensation expense	—	—	—	—	4,973	—	—	2,551	7,524
Issuance of Class A common stock upon settlement of restricted stock units, net of shares withheld for tax	630	—	—	—	(3,375)	—	—	(536)	(3,911)
Dividends declared ($0.0294 per share)	—	—	—	—	—	(2,891)	—	—	(2,891)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(4,304)	(4,304)
Exchanges of noncontrolling interest for Class A common stock	4,637	5	(4,637)	(5)	13,403	—	—	(13,403)	—
Recognition of tax receivable agreement liability resulting from exchanges of noncontrolling interest for Class A common stock	—	—	—	—	(19,198)	—	—	—	(19,198)
Net deferred tax asset resulting from changes in outside basis difference on investment in Switch, Ltd.	—	—	—	—	16,610	—	—	—	16,610
Balance—March 31, 2020	95,035	$ 95	146,410	$ 146	$ 217,124	$ (1,754)	$ 79	$ 402,147	$ 617,837

Switch, Inc.
Consolidated Statements of Stockholders' Equity (Continued)
(in thousands)
(unaudited)

	Switch, Inc. Stockholders' Equity										
	Class A Common Stock		Class B Common Stock		Class C Common Stock						
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid in Capital	(Accumulated Deficit) Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Stockholders' Equity
Balance—December 31, 2018	55,218	$ 55	148,481	$ 149	42,945	$ 43	$ 140,191	$ 2,693	$ 79	$ 565,142	$ 708,352
Cumulative adjustment due to adoption of new revenue recognition standard	—	—	—	—	—	—	—	224	—	940	1,164
Net income	—	—	—	—	—	—	—	733	—	3,113	3,846
Equity-based compensation expense	—	—	—	—	—	—	4,160	—	—	3,985	8,145
Issuance of Class A common stock upon settlement of restricted stock units, net of shares withheld for tax	463	1	—	—	—	—	(2,016)	—	—	705	(1,310)
Dividends declared ($0.0294 per share)	—	—	—	—	—	—	—	(1,728)	—	—	(1,728)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	—	—	(6,006)	(6,006)
Net deferred tax asset resulting from changes in outside basis difference on investment in Switch, Ltd.	—	—	—	—	—	—	(728)	—	—	—	(728)
Balance—March 31, 2019	55,681	$ 56	148,481	$ 149	42,945	$ 43	$ 141,607	$ 1,922	$ 79	$ 567,879	$ 711,735

The accompanying condensed notes are an integral part of these consolidated financial statements.

Switch, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (3,489)	$ 3,846
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	32,518	28,558
Loss on disposal of property and equipment	60	43
Deferred income taxes	(273)	206
Amortization of debt issuance costs	409	409
Credit loss expense (benefit)	18	(23)
Unrealized loss on interest rate swaps	16,745	4,985
Equity-based compensation	7,524	8,145
Amortization of portfolio energy credits	267	359
Cost of revenue for sales-type leases	2,803	—
Changes in operating assets and liabilities:		
Accounts receivable	5,944	5,164
Prepaid expenses	454	58
Other current assets	(626)	(62)
Other assets	411	893
Accounts payable	1,987	(2,201)
Accrued salaries and benefits	1,025	249
Accrued expenses	117	1,650
Deferred revenue	(2,261)	673
Customer deposits	298	229
Operating lease liabilities	(1,281)	(1,198)
Other long-term liabilities	(92)	(61)
Net cash provided by operating activities	62,558	51,922
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of property and equipment	(80,898)	(45,946)
Proceeds from sale of property and equipment	—	16
Purchase of portfolio energy credits	(601)	(299)
Net cash used in investing activities	(81,499)	(46,229)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	70,000	—
Repayment of borrowings, including finance lease liabilities	(1,671)	(1,500)
Change in long-term deposit	1,659	2,543
Payment of tax withholdings upon settlement of restricted stock unit awards	(4,040)	(1,338)
Dividends paid to Class A common stockholders	(2,795)	—
Distributions paid to noncontrolling interest	(4,222)	—
Net cash provided by (used in) financing activities	58,931	(295)
NET INCREASE IN CASH AND CASH EQUIVALENTS	39,990	5,398
CASH AND CASH EQUIVALENTS—Beginning of period	24,721	81,560
CASH AND CASH EQUIVALENTS—End of period	$ 64,711	$ 86,958

Switch, Inc.
Consolidated Statements of Cash Flows (Continued)
(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2020	2019
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest, net of amounts capitalized	$ 7,106	$ 6,588
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING INFORMATION:		
Decrease in liabilities incurred to acquire property and equipment	$ (13,532)	$ (10,585)
Decrease in accrued construction payables incurred related to long-term deposit	$ (882)	$ —
Increase in property and equipment related to transfer of long-term deposit	$ 244	$ —
Increase in dividends payable on unvested restricted stock units	$ 96	$ 90
Decrease in noncontrolling interest as a result of exchanges for Class A common stock	$ (13,403)	$ —
Recognition of liabilities under tax receivable agreement	$ 19,198	$ —
Increase (decrease) in deferred tax asset resulting from changes in outside basis difference on investment in Switch, Ltd.	$ 16,610	$ (728)
Property and equipment obtained in exchange for new finance leases	$ 145	$ —
Increase in distributions payable on unvested common units	$ 82	$ 490
Dividends payable settled with shares of Class A common stock	$ 129	$ 28
Dividends and distributions declared but not paid	$ —	$ 7,154

The accompanying condensed notes are an integral part of these consolidated financial statements.

Switch, Inc.
Condensed Notes to Consolidated Financial Statements
(unaudited)

1. Organization

Switch, Inc. was formed as a Nevada corporation in June 2017 for the purpose of completing an initial public offering ("IPO") and related organizational transactions in order to carry on the business of Switch, Ltd. and its subsidiaries (collectively, "Switch," and together with Switch, Inc., the "Company"). Switch is comprised of limited liability companies that provide colocation space and related services to global enterprises, financial companies, government agencies, and others that conduct critical business on the internet. Switch develops and operates data centers in Nevada, which are Tier IV Gold certified, Michigan, and Georgia (which opened in the first quarter of 2020), delivering redundant services with low latency and super capacity transport environments. As the manager of Switch, Ltd., Switch, Inc. operates and controls all of the business and affairs of Switch.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with the rules and regulations of the Securities and Exchange Commission (the "SEC") for quarterly reports on Form 10-Q and Article 10 of Regulation S-X. Accordingly, certain footnote disclosures normally included in annual financial statements prepared in accordance with GAAP have been condensed or omitted. These consolidated financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Management believes that the accompanying consolidated financial statements reflect all adjustments, which include only normal recurring adjustments, necessary for the fair statement of these consolidated financial statements. The consolidated results of operations for the three months ended March 31, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020, or for any other future annual or interim period.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and all significant intercompany transactions and balances have been eliminated.

As the sole manager of Switch, Ltd., Switch, Inc. operates and controls all of the business and affairs of Switch, has the sole voting interest in, and controls the management of, Switch, and has the obligation to absorb the losses of, and receive benefits from, Switch. Accordingly, Switch, Inc. identifies itself as the primary beneficiary of Switch and began consolidating Switch in its consolidated financial statements as of October 11, 2017, the closing date of the IPO, resulting in a noncontrolling interest related to the common units of Switch, Ltd. ("Common Units") held by members, including Rob Roy, the Founder, Chief Executive Officer and Chairman of Switch, Ltd., and an affiliated entity of Mr. Roy (collectively, the "Founder Members"), other than Switch, Inc. on its consolidated financial statements.

The Company periodically evaluates entities for consolidation either through ownership of a majority voting interest, or through means other than voting interest, in accordance with the Variable Interest Entity ("VIE") accounting model. A VIE is an entity in which either (i) the equity investors as a group, if any, lack the power through voting or similar rights to direct the activities of such entity that most significantly impact such entity's economic performance or (ii) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including, but not limited to, those related to the allowance for credit losses, useful lives of property and equipment, deferred income taxes, liabilities under the tax receivable agreement, equity-based compensation, deferred revenue, incremental borrowing rate, fair value of performance obligations, and probability assessments of exercising renewal options on leases. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable. Actual results could differ from these estimates.

Significant Accounting Policies

A description of the Company's significant accounting policies is included in the audited financial statements within its Annual Report on Form 10-K for the year ended December 31, 2019. No other changes to significant accounting policies have occurred since the year ended December 31, 2019, with the exception of those detailed below.

Concentration of Credit and Other Risks

Although the Company operates primarily in Nevada, realization of its receivables and its future operations and cash flows could be affected by adverse economic conditions, both regionally and elsewhere in the United States. During the three months ended March 31, 2020 and 2019, the Company's largest customer and its affiliates comprised 14% and 11%, respectively, of the Company's revenue. Two customers accounted for 10% or more of total receivables, including net investments in sales-type leases, as of March 31, 2020 and two customers, one of which was the Company's largest customer and its affiliate, accounted for 10% or more of total receivables as of December 31, 2019.

Revenue Recognition

Contract Balances

The opening and closing balances of the Company's contract assets, net of allowance for credit losses, and deferred revenue are as follows:

	Contract Assets, Current Portion (1)	Contract Assets (2)	Deferred Revenue, Current Portion (3)	Deferred Revenue (4)
	(in thousands)			
December 31, 2019	496	3,216	14,991	27,852
March 31, 2020	362	3,393	15,826	24,756
Change	$ (134)	$ 177	$ 835	$ (3,096)

(1) Amounts are included within other current assets on the Company's consolidated balance sheets.
(2) Amounts are included within other assets on the Company's consolidated balance sheets.
(3) Amounts include $3.8 million and $3.6 million of deferred revenue related to leases as of December 31, 2019 and March 31, 2020, respectively.
(4) Amounts include $7.9 million and $3.7 million of deferred revenue related to leases as of December 31, 2019 and March 31, 2020, respectively.

The differences between the opening and closing balances of the Company's deferred revenue primarily result from timing differences between the Company's satisfaction of performance obligations and the associated customer payments. Revenue recognized during the three months ended March 31, 2020 from the balance of deferred revenue as of December 31, 2019 was $6.6 million. For the three months ended March 31, 2020 and 2019, no impairment losses related to contract assets were recognized on the consolidated statements of comprehensive (loss) income.

Remaining Performance Obligations

Remaining performance obligations represent contracted revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized in future periods. These amounts as of March 31, 2020 were $790.1 million, 34%, 41%, and 13% of which is expected to be recognized over the next year, one to three years, and three to five years, respectively, with the remainder recognized thereafter. The remaining performance obligations do not include estimates of variable consideration related to unsatisfied performance obligations, such as the usage of metered power, or any contracts that could be terminated without significant penalties.

Fair Value Measurements

Information about the Company's financial assets and liabilities measured at fair value on a recurring basis is presented below:

		March 31, 2020			
	Balance Sheet Classification	Carrying Value	Level 1	Level 2	Level 3
		(in thousands)			
Assets:					
Cash equivalents	Cash and cash equivalents	$ 27,229	$ 27,229	$ —	$ —
Liabilities:					
Interest rate swaps	Interest rate swap liability, current portion	$ 8,297	$ —	$ 8,297	$ —
Interest rate swaps	Other long-term liabilities	$ 22,462	$ —	$ 22,462	$ —

		December 31, 2019			
	Balance Sheet Classification	Carrying Value	Level 1	Level 2	Level 3
		(in thousands)			
Liabilities:					
Interest rate swaps	Interest rate swap liability, current portion	$ 3,464	$ —	$ 3,464	$ —
Interest rate swaps	Other long-term liabilities	$ 10,550	$ —	$ 10,550	$ —

Transfers between levels of fair value hierarchy are recorded at the end of the reporting period during which the events or changes in circumstances that caused the transfers occur. There were no transfers between levels of fair value hierarchy during the periods presented.

The fair value of interest rate swaps was measured using a present value of cash flow valuation technique based on forward yield curves for the same or similar financial instruments.

The estimated fair value of the Company's long-term debt as of March 31, 2020 and December 31, 2019 was approximately $788.5 million and $755.0 million, respectively, compared to its carrying value, excluding debt issuance costs, of $823.5 million and $755.0 million, respectively. The estimated fair value of the Company's long-term debt was based on Level 2 inputs using quoted market prices on or about March 31, 2020 and December 31, 2019, respectively.

Recent Accounting Pronouncements

ASU 2014-09–Revenue from Contracts with Customers and ASU 2016-02–Leases

In the fourth quarter of 2019, the Company adopted Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU 2016-02, Leases (Topic 842) effective January 1, 2019, each using the modified retrospective approach. Results for the three months ended March 31, 2019 have been modified to reflect the adoption of this guidance each on January 1, 2019.

ASU 2016-13–Financial Instruments–Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, Financial Instruments–Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"). Under this guidance, a company will be required to use a new forward-looking "expected loss" model for trade and other receivables that generally will result in the earlier recognition of allowances for losses. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, and requires a modified retrospective approach to adoption. In April 2019, the FASB issued ASU 2019-04, which, among other amendments, allows for certain policy elections and practical expedients related to accrued interest on financial instruments. In May 2019, the FASB issued ASU 2019-05, which granted targeted transition relief by allowing entities to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost. In November 2019, the FASB issued ASU 2019-10 and ASU 2019-11, which addressed certain aspects of the guidance related to effective dates, expected recoveries, troubled debt restructurings, accrued interest receivables, and financial assets secured by collateral. In February and March 2020, the FASB also issued ASU 2020-02 and ASU 2020-03, respectively, which provide certain amendments and improvements to sections of ASU 2016-13.

The Company adopted this guidance effective January 1, 2020 using the modified retrospective method. As a result of this adoption, the Company measured an allowance for current expected credit losses for its accounts receivable and contract assets through a loss rate method; whereby, based on past events, such as prior write-offs, it determined expected losses as of the adoption date, while adjusting for current and forward-looking conditions, such as economic news and trends, customer concentrations, changes in customer payment terms, and customer credit-worthiness. Customer credit-worthiness is determined through indicators such as third-party credit ratings, collection experience, and other internal metrics. If a customer's credit-worthiness resulted in an impairment of their ability to make payments, greater allowances for credit losses may be required. The Company pooled its assets based on these conditions such that each asset pool reflected a homogenous set of asset risks, including characteristics such as credit ratings, customer industry, contract term, and historical credit loss patterns. For any period beyond a reasonable and supportable forecast for current and forward-looking conditions, the Company reverted to a loss rate based only on historical information. The adoption of this guidance did not materially impact the Company's consolidated financial statements.

ASU 2018-13–Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework–Changes to the Disclosure Requirements for Fair Value Measurement ("ASU 2018-13"). The amendments in this update modify the disclosure requirements for fair value measurements by removing, modifying, or adding certain disclosures. The amendments in ASU 2018-13 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. In addition, in November 2018, the FASB issued ASU 2018-19, which provides clarifications and improvements on sections of ASU 2018-13. The Company has adopted this guidance as of March 31, 2020. The adoption of this guidance did not materially impact the Company's consolidated financial statements.

ASU 2019-12–Income Taxes

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740)–Simplifying the Accounting for Income Taxes ("ASU 2019-12"). The amendments in ASU 2019-12 provide certain clarifications and simplify accounting for income taxes by removing certain exceptions to the general principles in the current guidance. The amendments in ASU 2019-12 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted in periods for which financial statements have not yet been issued. The Company is evaluating the impact the adoption of this guidance will have on its consolidated financial statements. The Company has not decided if early adoption will be considered.

ASU 2020-04–Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, Reference Rate Reform (Topic 848)–Facilitation of the Effects of Reference Rate Reform on Financial Reporting ("ASU 2020-04"). The amendments in ASU 2020-04 provide optional expedients and exceptions to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform if certain criteria are met. The expedients and exceptions provided by the amendments do not apply to contract modifications made and hedging relationships entered into or evaluated after December 31, 2022. The amendments in this update are elective and are effective upon issuance for all entities. The Company has adopted this guidance as of March 31, 2020. The adoption of this guidance did not materially impact the Company's consolidated financial statements.

Reclassification

The Company reclassified the current portion of its interest rate swap liability to present it separately from accrued expenses on the consolidated balance sheet as of December 31, 2019 to be consistent with the current period presentation. The reclassification had no impact on the Company's financial condition, results of operations, or net cash flows.

3. Property and Equipment, Net

Property and equipment, net consists of the following:

	March 31, 2020	December 31, 2019
	(in thousands)	
Land and land improvements	$ 275,322	$ 223,877
Buildings, building improvements, and leasehold improvements	505,294	435,214
Substation equipment	19,780	19,780
Data center equipment	1,130,743	1,021,056
Vehicles	1,825	1,732
Core network equipment	38,943	36,572
Fiber facilities	13,644	13,180
Computer equipment, furniture and fixtures	42,748	39,057
Finance lease right-of-use assets	72,957	72,569
Construction in progress	81,353	254,750
Property and equipment, gross	2,182,609	2,117,787
Less: accumulated depreciation and amortization	(599,118)	(566,670)
Property and equipment, net	$ 1,583,491	$ 1,551,117

Accumulated amortization for finance lease right-of-use assets totaled $12.3 million and $11.7 million as of March 31, 2020 and December 31, 2019, respectively.

During the three months ended March 31, 2020 and 2019, capitalized interest was $1.8 million and $1.3 million, respectively.

The Company capitalized internal use software costs of $0.1 million and $0.5 million during the three months ended March 31, 2020 and 2019, respectively.

Total depreciation and amortization of property and equipment recognized on the consolidated statements of comprehensive (loss) income was as follows:

	Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Cost of revenue	$ 31,228	$ 27,810
Selling, general and administrative expense	1,290	748
Total depreciation and amortization of property and equipment	$ 32,518	$ 28,558

4. Commitments and Contingencies

Operating Leases

During the three months ended March 31, 2020 and 2019, lease costs related to operating leases were $1.8 million and $1.9 million, respectively. Related party lease costs included in these amounts were $1.2 million for each of the three months ended March 31, 2020 and 2019.

Legal Proceedings

On September 7, 2017, Switch, Ltd. and Switch, Inc. were named in a lawsuit filed in the U.S. District Court for the District of Nevada by V5 Technologies formerly d/b/a Cobalt Data Centers. The lawsuit alleges, among other things, that Switch, Ltd. and Switch, Inc. monopolized the Las Vegas Metropolitan area of Southern Nevada’s data center colocation market and engaged in unfair business practices leading to the failure of Cobalt Data Centers in 2015 and seeks monetary damages in an amount yet to be disclosed. Discovery closed in February 2020. In March 2020, both parties filed motions for summary judgment and are waiting for the court to rule on the motions. Switch, Ltd. and Switch, Inc. are vigorously defending the case.

On September 12, 2017, Switch, Ltd. filed a complaint in the Eighth Judicial District of Nevada against the consultant, Stephen Fairfax, and his business, MTechnology Inc. Among other claims, Switch raised allegations of breach of contract and misappropriation of trade secrets. The complaint also alleged that Aligned Data Centers LLC (“Aligned”) hired Mr. Fairfax and MTechnology Inc. to design their data centers; that this consultant had toured Switch under a non-disclosure agreement; and that this consultant breached his confidentiality agreements with Switch by using Switch’s designs to design the Aligned data centers. Switch, Ltd. is seeking an injunction to prevent the defendants in the lawsuit from infringing Switch, Ltd.’s patents, as well as other remedies. The parties are currently engaged in discovery.

Four substantially similar putative class action complaints, captioned Martz v. Switch, Inc. et al. (filed April 20, 2018); Palkon v. Switch, Inc. et al. (filed April 30, 2018); Chun v. Switch, Inc. et al. (filed May 11, 2018); and Silverberg v. Switch, Inc. et al. (filed June 6, 2018), were filed in the Eighth Judicial District of Nevada, and subsequently consolidated into a single case (the “State Court Securities Action”). Additionally, on June 11, 2018, one putative class action complaint captioned Cai v. Switch, Inc. et al. was filed in the United States District Court for the District of New Jersey (the “Federal Court Securities Action,” and collectively with the State Court Securities Action, the “Securities Actions”) and subsequently transferred to the Eighth Judicial District of Nevada in August 2018 and the federal court appointed Oscar Farach lead plaintiff. These lawsuits were filed against Switch, Inc., certain current and former officers and directors and certain underwriters of Switch, Inc.’s IPO alleging federal securities law violations in connection with the IPO. These lawsuits were brought by purported stockholders of Switch, Inc. seeking to represent a class of stockholders who purchased Class A common stock in or traceable to the IPO, and seek unspecified damages and other relief. In October 2018, the state court granted the defendants’ motion to stay the State Court Securities Action in favor of the Federal Court Securities Action, which stay was affirmed by the Nevada Supreme Court in September 2019. With respect to the Federal Court Securities Action, in July 2019, the federal court granted Switch, Inc.’s motion to dismiss in part, which narrowed the scope of the plaintiff’s case. In December 2019, Switch, Inc. filed a motion for judgment on the pleadings and the parties are waiting for the federal court to rule on the motion. The parties are currently engaged in discovery in the Federal Court Securities Action. Switch, Inc. believes that these lawsuits are without merit and intends to continue to vigorously defend against them.

On September 10, 2018, two purported stockholders of Switch, Inc. filed substantially similar shareholder derivative complaints, respectively captioned Liu v. Roy et al., and Zhao v. Roy et al., in the Eighth Judicial District of Nevada, which were subsequently consolidated into a single case (the “Derivative Shareholder Action”). These lawsuits allege breaches of fiduciary duty, unjust enrichment, waste of corporate assets, abuse of control, and gross mismanagement against certain current and former officers and directors of Switch, Inc. The plaintiffs also named Switch, Inc. as a nominal defendant. The complaints arise generally from the same allegations described in the State Court Securities Action and Federal Court Securities Action. The plaintiffs seek unspecified damages on Switch, Inc.’s behalf from the officer and director defendants, certain corporate governance actions, compensatory awards, and other relief. In December 2019, the court granted the parties’ stipulation to stay the Derivative Shareholder Action until the earlier of any of the following events: the Securities Actions are resolved with prejudice as to each defendant or a motion for summary judgment is resolved in the Federal Court Securities Action.

The outcomes of the legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to the Company’s financial condition, results of operations, and cash flows for a particular period. Where the Company is a defendant, it will vigorously defend against the claims pleaded against it. These actions are each in preliminary stages and management has determined that based on proceedings to date, it is currently unable to determine the probability of the outcome of these actions or the range of reasonably possible loss, if any.

5. Income Taxes

The Company recorded a net increase in deferred tax assets of $16.6 million during the three months ended March 31, 2020, with a corresponding increase to additional paid in capital, and a net decrease in deferred tax assets of $0.7 million during the three months ended March 31, 2019, with a corresponding decrease to additional paid in capital, resulting from changes in the outside basis difference on Switch, Inc.’s investment in Switch, Ltd. The Company has determined it is more-likely-than-not that it will be able to realize this deferred tax asset in the future.

The Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) was enacted in March 2020. The Company does not expect the provisions of the CARES Act to have a significant impact on the effective tax rate or the deferred income tax positions of the Company.

Tax Receivable Agreement

The Company has recorded a liability under the tax receivable agreement of $181.3 million and $162.1 million as of March 31, 2020 and December 31, 2019, respectively, which provides for the payment of 85% of the amount of the tax benefits, if any, that Switch, Inc. is deemed to realize as a result of increases in the tax basis of its ownership in Switch, Ltd. related to exchanges of noncontrolling interest for Class A common stock.

6. Equity-Based Compensation

Total equity-based compensation recognized on the consolidated statements of comprehensive (loss) income was as follows:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(in thousands)	
Cost of revenue	$ 470	$ 373
Selling, general and administrative expense	7,054	7,772
Total equity-based compensation	$ 7,524	$ 8,145

7. Noncontrolling Interest

Ownership

Switch, Inc. owns a minority economic interest in Switch, Ltd., where "economic interests" means the right to receive any distributions, whether cash, property or securities of Switch, Ltd., in connection with Common Units. Switch, Inc. presents interest held by noncontrolling interest holders within noncontrolling interest in the consolidated financial statements. During the three months ended March 31, 2020, Switch, Inc. issued an aggregate of 4.6 million shares of Class A common stock to members of Switch, Ltd. in connection with such members' redemptions of an equivalent number of Common Units and corresponding cancellation and retirement of an equivalent number of Switch, Inc.'s Class B common stock. Such retired shares of Class B common stock may not be reissued. The redemptions occurred pursuant to the terms of the Switch operating agreement entered into in connection with the Company's IPO.

In February 2020, Switch, Inc.'s Board of Directors authorized the repurchase by Switch, Ltd. of up to $20.0 million of its outstanding Common Units, which authorization expired unused on March 17, 2020.

The ownership of the Common Units is summarized as follows:

	March 31, 2020		December 31, 2019	
	Units	Ownership %	Units	Ownership %
	(units in thousands)			
Switch, Inc.'s ownership of Common Units[1]	94,955	39.8 %	89,688	37.8 %
Noncontrolling interest holders' ownership of Common Units[2]	143,620	60.2 %	147,859	62.2 %
Total Common Units	238,575	100.0 %	237,547	100.0 %

(1) Common Units held by Switch, Inc. exclude 80,000 Common Units underlying unvested restricted stock awards as of March 31, 2020 and December 31, 2019.
(2) Common Units held by noncontrolling interest holders exclude 2.8 million and 3.2 million unvested Common Unit awards as of March 31, 2020 and December 31, 2019, respectively.

The Company uses the weighted average ownership percentages during the period to calculate the (loss) income before income taxes attributable to Switch, Inc. and the noncontrolling interest holders of Switch, Ltd.

8. Net (Loss) Income Per Share

The following table sets forth the calculation of basic and diluted net (loss) income per share:

	Three Months Ended March 31,	
	2020	2019
	(in thousands, except per share data)	
Net (loss) income per share:		
Numerator—basic:		
Net (loss) income attributable to Switch, Inc.—basic	$ (1,216)	$ 733
Numerator—diluted:		
Net (loss) income attributable to Switch, Inc.—basic	$ (1,216)	$ 733
Effect of dilutive securities:		
Shares of Class B and Class C common stock	—	2,397
Net (loss) income attributable to Switch, Inc.—diluted	$ (1,216)	$ 3,130
Denominator—basic:		
Weighted average shares outstanding—basic	94,366	55,536
Net (loss) income per share—basic	$ (0.01)	$ 0.01
Denominator—diluted:		
Weighted average shares outstanding—basic	94,366	55,536
Weighted average effect of dilutive securities:		
Stock options	—	40
Restricted stock units	—	311
Dividend equivalent units	—	18
Restricted stock awards	—	33
Shares of Class B and Class C common stock	—	191,426
Weighted average shares outstanding—diluted	94,366	247,364
Net (loss) income per share—diluted	$ (0.01)	$ 0.01

Shares of Class B and Class C common stock do not share in the earnings or losses of Switch, Inc. and are therefore not participating securities. As such, separate calculations of basic and diluted net (loss) income per share for each of Class B and Class C common stock under the two-class method have not been presented.

The following table presents potentially dilutive securities excluded from the computation of diluted net (loss) income per share for the periods presented because their effect would have been anti-dilutive.

	Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Stock options[(1)]	9,243	6,377
Restricted stock units[(1)]	3,672	1,979
Dividend equivalent units	29	—
Restricted stock awards[(1)]	80	—
Shares of Class B and Class C common stock[(2)]	146,410	—

(1) Represents the number of instruments outstanding at the end of the period. Application of the treasury stock method would reduce this amount if they had a dilutive effect and were included in the computation of diluted net (loss) income per share.

(2) Shares of Class B and Class C common stock at the end of the period are considered potentially dilutive shares of Class A common stock under application of the if-converted method.

9. Segment Reporting

The Company's chief operating decision maker is its Chief Executive Officer. The Company manages its operations as a single operating segment for the purposes of assessing performance and making operating decisions. All of the Company's assets are maintained in the United States, although the Company holds an equity method investment in SUPERNAP International, S.A., which has deployed facilities in Italy and Thailand. The Company derives almost all of its revenue from sales to customers in the United States, based upon the billing address of the customer. Revenue derived from customers outside the United States, based upon the billing address of the customer, was less than 2% of revenue for each of the three months ended March 31, 2020 and 2019.

The Company's revenue is comprised of the following:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(in thousands)	
Colocation	$ 101,214	$ 86,485
Connectivity	25,191	18,995
Other	1,691	1,962
Total revenue	$ 128,096	$ 107,442

10. Subsequent Events

In April and May 2020, Switch, Inc. issued an aggregate of 7.9 million and 3.5 million shares, respectively, of Class A common stock to members of Switch, Ltd. in connection with such members' redemptions of an equivalent number of Common Units and corresponding cancellation and retirement of an equivalent number of shares of Class B common stock. Such retired shares of Class B common stock may not be reissued. The redemptions occurred pursuant to the terms of the Switch operating agreement entered into in connection with the Company's IPO.

In April 2020, a subsidiary of the Company entered into an agreement with an entity in which a member of its Board of Directors has a beneficial ownership interest for the purchase of approximately two acres of land in Las Vegas, Nevada for $2.5 million. The purchase is expected to close during the second quarter of 2020.

In May 2020, Switch, Inc.'s Board of Directors declared a dividend of $0.0294 per share of Class A common stock, for a total estimated to be $3.1 million, to be paid on June 2, 2020 to holders of record as of May 22, 2020. Prior to the payment of this dividend, Switch, Ltd. will make a cash distribution to all holders of record of Common Units, including Switch, Inc., of $0.0294 per Common Unit, for a total estimated to be $7.1 million.

In May 2020, Switch, Inc.'s Board of Directors authorized the repurchase by Switch, Ltd. of up to $20.0 million of its outstanding Common Units held by Founder Members, with any unused amount from this authorization expiring on June 16, 2020.

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related condensed notes included in Part I, Item 1 of this Quarterly Report on Form 10-Q (this "Form 10-Q"), and with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2019. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed below. Factors that could cause or contribute to such differences include, but are not limited to, those identified below and those discussed in "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019. Unless the context otherwise requires, references to "we," "us," "our," the "Company," "Switch" and similar references refer to Switch, Inc., and, unless otherwise stated, all of its subsidiaries, including Switch, Ltd., and, unless otherwise stated, all of its subsidiaries.

Overview

We are a technology infrastructure company powering the sustainable growth of the connected world and the Internet of Everything. Using our technology platform, we provide solutions to help enable that growth. Our advanced data centers are the center of our platform and provide power densities that exceed industry averages with efficient cooling, while being powered by 100% renewable energy. These hyperscale data centers address the growing challenges facing the data center industry. Our critical infrastructure components in our data centers are purpose-built to satisfy customers' needs, drive efficiency and enable the deployment of highly advanced computing technologies.

We presently own and operate four primary campus locations, called Primes, which encompass 12 colocation facilities with an aggregate of up to 4.7 million gross square feet ("GSF") of space. Our Primes consist of The Core Campus in Las Vegas, Nevada; The Citadel Campus near Reno, Nevada; The Pyramid Campus in Grand Rapids, Michigan; and The Keep Campus in Atlanta, Georgia, which opened during the first quarter of 2020. In addition to our Primes, we hold a 50% ownership interest in SUPERNAP International, S.A. ("SUPERNAP International") which has deployed facilities in Italy and Thailand. Until March 31, 2018, we accounted for this ownership interest under the equity method of accounting.

We currently have more than 950 customers, including some of the world's largest technology and digital media companies, cloud, IT and software providers, financial institutions and network and telecommunications providers. Our ecosystem connects over 250 cloud, IT and software providers and more than 90 network and telecommunications providers. Our business is based on a recurring revenue model comprised of (1) colocation, which includes the licensing and leasing of cabinet space and power and (2) connectivity services, which include cross-connects, broadband services and external connectivity. We consider these services recurring because our customers are generally billed on a fixed and recurring basis each month for the duration of their contract. We generally derive more than 95% of our revenue from recurring revenue and we expect to continue to do so for the foreseeable future.

Our non-recurring revenue is primarily comprised of installation services related to a customer's initial deployment. These services are non-recurring because they are typically billed once, upon completion of the installation.

Factors that May Influence Future Results of Operations

Impact of COVID-19. In March 2020, the World Health Organization declared the outbreak of the novel coronavirus ("COVID-19") as a pandemic, which continues to be spread throughout the U.S. and the world. The impact from the rapidly changing market and economic conditions due to the COVID-19 outbreak is uncertain, disrupting the business of our customers, and may impact our business, consolidated results of operations, and financial condition in the future. While we have not incurred significant disruptions thus far from the COVID-19 outbreak, we are unable to accurately predict the full impact that COVID-19 will have due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, actions that may be taken by governmental authorities, the impact to the business of our customers, and other factors identified in Part II, Item 1A "Risk Factors" in this Form 10-Q. We will continue to evaluate the nature and extent of the impact to our business, consolidated results of operations, and financial condition.

Market and Economic Conditions. We are affected by general business and economic conditions in the United States and globally. These conditions include short-term and long-term interest rates, inflation, money supply, political issues, legislative and regulatory changes, fluctuations in both debt and equity capital markets and broad trends in industry and finance, all of which are beyond our control. Macroeconomic conditions that affect the economy and the economic outlook of the United States and the rest of the world, including as a result of the COVID-19 pandemic, could adversely affect our customers and vendors, which could adversely affect our results of operations and financial condition.

Growth and Expansion Activities. Our future revenue growth will depend on our ability to maintain our existing revenue base while expanding and increasing utilization at our existing and developing Prime Campus locations. Our existing Prime Campus locations currently encompass 12 colocation facilities with an aggregate of up to 4.7 million GSF of space and up to 490 megawatts ("MW") of power. As of March 31, 2020, the utilization rates at these Prime Campuses, based on currently available cabinets, were approximately 93%, 84%, 71%, and 21% at The Core Campus, The Citadel Campus, The Pyramid Campus, and The Keep Campus, respectively. Additionally, each of our existing Primes has room for further expansion. We may be unable to attract customers to our data centers or retain them for a number of reasons, including if we fail to provide competitive pricing terms, provide space that is deemed to be inferior to that of our competitors or are unable to provide services that our existing and potential customers desire.

Cost of Power. We are a large consumer of power, and the cost of energy accounts for a significant portion of our cost of revenue. We require power supply to provide many services we offer, such as powering and cooling our customers' IT equipment and operating critical data center plant and equipment infrastructure. Pursuant to our service agreements, we provide our customers with a committed level of power supply availability and we have committed to operating our data centers with 100% clean and renewable energy. Most of our customer agreements provide the ability to increase our cost of service in response to an increase in the cost of energy; however, our gross profit can be adversely affected by increases in our cost of energy if we choose not to pass along the increases to our customers. For instance, the seasonal increase in energy costs during the summer months has not historically resulted in an adjustment to our customer pricing, and therefore has resulted in a decrease in our gross profit in those periods. Nonetheless, as an unbundled purchaser of energy in Nevada, we are able to purchase power in the open market through long-term power contracts, which we believe reduces variability of energy costs. Additionally, our existing customers may not renew their contracts with us or may reduce the services purchased from us, or we may be unable to attract new customers, if we experience increased energy costs or limited availability of power resources, including clean and renewable energy. Our brand or reputation could be adversely affected if we are unable to operate our data centers with 100% clean and renewable energy.

Capital Expenditures. Our growth and expansion initiatives require significant capital. The costs of constructing, developing, operating and maintaining data centers, and growing our operations are substantial. While we strive to match the growth of our facilities to the demand for services, we still must spend significant amounts before we receive any revenue. If we are unable to generate sufficient capital to meet our anticipated capital requirements, our growth could slow and operations could be adversely affected. Our maintenance capital expenditures were $1.3 million for the three months ended March 31, 2020.

Growth in Customers. Our results of operations could be significantly affected by the growth or reduction of our customer base. We have over 950 customers, including some of the world's largest technology and digital media companies, cloud, IT and software providers, financial institutions, and network and telecommunications providers. We believe we have significant opportunities to both grow penetration of our existing customers as well as attract new customers. Our ability to attract new customers depends on a number of factors, including our ability to offer high quality services at competitive prices and the capability of our marketing and sales team to attract new customers. Additionally, a significant portion of our revenue is highly dependent on our top 10 customers and the loss of these customers or any significant decrease in their business could adversely affect our results of operations.

Key Metrics and Non-GAAP Financial Measures

We monitor the following unaudited key metrics and financial measures, some of which are not calculated in accordance with accounting principles generally accepted in the United States of America (“GAAP”) to help us evaluate our business, identify trends affecting our business, formulate business plans and make strategic decisions.

	Three Months Ended March 31,	
	2020	2019
	(dollars in thousands)	
Recurring revenue	$ 120,486	$ 104,491
Capital expenditures	$ 80,898	$ 45,946
Adjusted EBITDA	$ 61,489	$ 53,838
Adjusted EBITDA margin	48.0 %	50.1 %

Recurring Revenue

We calculate recurring revenue as contractual revenue under signed contracts calculated in accordance with GAAP for the applicable period. Recurring revenue does not include any installation or other one-time revenue, which would be classified as non-recurring revenue. Management uses recurring revenue as a supplemental performance measure because it provides a useful measure of increases or decreases in contractual revenue from our customers and provides a baseline revenue measure on which to plan expenses.

The following table sets forth a reconciliation of recurring revenue to total revenue:

	Three Months Ended March 31,	
	2020	2019
	(in thousands)	
Recurring revenue	$ 120,486	$ 104,491
Non-recurring revenue	7,610	2,951
Revenue	$ 128,096	$ 107,442

Capital Expenditures

We define capital expenditures as cash purchases of property and equipment during a particular period. We believe that capital expenditures is a useful metric because it provides information regarding the growth of our technology infrastructure platform and the potential to expand our services and add new customers.

Adjusted EBITDA and Adjusted EBITDA Margin

We define Adjusted EBITDA as net (loss) income adjusted for interest expense, interest income, income taxes, depreciation and amortization of property and equipment and for specific and defined supplemental adjustments to exclude (i) non-cash equity-based compensation expense; (ii) equity in net losses of investments; and (iii) certain other items that we believe are not indicative of our core operating performance. We define Adjusted EBITDA margin as Adjusted EBITDA divided by revenue.

Our Adjusted EBITDA and Adjusted EBITDA margin are not prepared in accordance with GAAP, and should not be considered in isolation of, or as an alternative to measures prepared in accordance with GAAP. We present Adjusted EBITDA and Adjusted EBITDA margin because we believe certain investors use them as measures of a company’s historical operating performance and its ability to service and incur debt and make capital expenditures. We believe that the inclusion of certain adjustments in presenting Adjusted EBITDA and Adjusted EBITDA margin is appropriate to provide additional information to investors because Adjusted EBITDA and Adjusted EBITDA margin exclude certain items that we believe are not indicative of our core operating performance and that are not excluded in the calculation of EBITDA. Adjusted EBITDA is also similar to the measures used under the debt covenants included in our credit facilities, except that the definition used in our credit facilities does not exclude certain cash gains or shareholder-related litigation expense. Accordingly, we believe that Adjusted EBITDA and Adjusted EBITDA margin provide useful information to investors and others in understanding and evaluating our operating results, enhancing the overall understanding of our past performance and future prospects, and allowing for greater transparency with respect to key financial metrics used by our management in its financial and operational decision-making.

Our non-GAAP financial measures have limitations as analytical tools and you should not consider them in isolation or as a substitute for an analysis of our results under GAAP. There are a number of limitations related to the use of these non-GAAP financial measures versus their nearest GAAP equivalents. Non-GAAP financial measures may not provide information directly comparable to measures provided by other companies in our industry, as those other companies may calculate their non-GAAP financial measures differently. In addition, the non-GAAP financial measures exclude certain recurring expenses that have been and will continue to be significant expenses of our business.

The following table sets forth a reconciliation of our net (loss) income to Adjusted EBITDA:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(in thousands)	
Net (loss) income	$ (3,489)	$ 3,846
Interest expense	7,435	7,131
Interest income[1]	(33)	(308)
Income tax (benefit) expense	(273)	206
Depreciation and amortization of property and equipment	32,518	28,558
Loss on disposal of property and equipment	60	43
Equity-based compensation	7,524	8,145
Shareholder-related litigation expense	192	1,232
Loss on interest rate swaps	17,555	4,985
Adjusted EBITDA	$ 61,489	$ 53,838

(1) Interest income is included in the “Other” line of other income (expense) in our consolidated statements of comprehensive (loss) income.

Components of Results of Operations

Revenue

During the three months ended March 31, 2020 and 2019, we derived more than 94% of our revenue from recurring revenue streams, consisting primarily of (1) colocation, which includes the licensing and leasing of cabinet space and power and (2) connectivity services, which include cross-connects, broadband services and external connectivity. The remainder of our revenue is from non-recurring revenue, which primarily includes installation services related to a customer’s initial deployment. The majority of our revenue contracts are classified as licenses, with the exception of certain contracts that contain lease components. Based on the current growth stage of our business, we expect increases in revenue to be driven primarily by increases in volume, rather than changes in the prices we charge to our customers.

We recognize revenue when control of these goods and services is transferred to our customers in an amount that reflects the consideration we expect to be entitled to in exchange for those goods and services. Revenue from recurring revenue streams is generally billed monthly and recognized using a time-based measurement of progress as customers receive service benefits evenly throughout the term of the contract. Contracts with our customers generally have terms of three to five years. Non-recurring installation fees, although generally paid in a lump sum upon installation, are deferred and recognized ratably over the contract term, determined using a portfolio approach. Revenue is generally recognized on a gross basis as a principal versus on a net basis as an agent, largely because we are primarily responsible for fulfilling the contract, take title to services, and bear credit risk.

Cost of Revenue

Cost of revenue consists primarily of depreciation and amortization expense, expenses associated with the operations of our facilities, including electricity and other utility costs and repairs and maintenance, data center employees’ salaries and benefits, including equity-based compensation, connectivity costs, and rental payments related to our leased buildings and land used in data center operations. A substantial portion of our cost of revenue is fixed in nature and may not vary significantly from period to period, unless we expand our existing data centers or open new data centers. However, there are certain costs that are considered more variable in nature, including utilities and supplies that are directly related to growth in our existing and new customer base. The largest portion of our utility costs is fixed and a smaller portion is variable with market conditions.

Gross Profit and Gross Margin

Gross profit, or revenue less cost of revenue, and gross margin, or gross profit as a percentage of revenue, has been and will continue to be affected by various factors, including customer growth, the expansion of our existing data centers or opening of new data centers, and the cost of our utilities, specifically electricity. Our gross margin may fluctuate from period to period depending on the interplay of these factors.

Operating Expenses

Selling, General and Administrative Expense

Selling, general and administrative expense consists primarily of salaries and related expenses, including equity-based compensation, accounting, legal and other professional service fees, real estate and personal property taxes, rental payments related to our corporate office lease, marketing and selling expenses, including sponsorships, commissions paid to partners, travel, depreciation and amortization expense, insurance, and other facility and employee related costs. This expense classification may not be comparable to those of other companies. We expect to incur additional selling, general and administrative expenses as we continue to scale our operations to invest in sales and marketing initiatives to further increase our revenue and support our growth. We also expect to continue to incur general and administrative expenses as a result of operating as a public company, including expenses related to compliance with the rules and regulations of the Securities and Exchange Commission ("SEC") and those of the New York Stock Exchange, additional expenses related to the loss of our emerging growth company status as of December 31, 2019, additional insurance expenses, investor relations activities, and other administrative and professional services. Further, we expect to continue to incur general and administrative expenses in the form of equity-based compensation as a result of the continued vesting of awards of common membership interests in Switch, Ltd. ("Common Units") granted to certain of our executives in 2017 and other equity awards. As a result, we expect that our selling, general and administrative expense will continue to increase in absolute dollars, but may fluctuate as a percentage of our revenue from period to period.

Other Income (Expense)

Interest Expense

Interest expense consists primarily of interest on our credit facilities and amortization of debt issuance costs, net of amounts capitalized.

Loss on Interest Rate Swaps

Loss on interest rate swaps consists of changes in the fair value of interest rate swaps used to mitigate our exposure to interest rate risk, inclusive of periodic net settlement amounts.

Other

Other income (expense) primarily consists of other items that have impacted our results of operations such as interest income and gains and losses resulting from other transactions.

Income Taxes

We are the sole manager of Switch, Ltd., which is treated as a partnership for U.S. federal and most applicable state and local income tax purposes. As a partnership, Switch, Ltd. is not subject to U.S. federal and certain state and local income taxes. Any taxable income or loss generated by Switch, Ltd. is passed through to, and included in the taxable income or loss of, its members, including us, on a pro rata basis. We are subject to U.S. federal income taxes, in addition to state and local income taxes with respect to our allocable share of any taxable income or loss generated by Switch, Ltd.

Noncontrolling Interest

As the sole manager of Switch, Ltd., we operate and control all of the business and affairs of Switch, Ltd. and its subsidiaries. Although we have a minority economic interest in Switch, Ltd., we have the sole voting interest in, and control the management of, Switch, Ltd. Accordingly, we consolidate the financial results of Switch, Ltd. and report a noncontrolling interest on our consolidated statements comprehensive (loss) income, representing the portion of net income or loss and comprehensive income or loss attributable to the noncontrolling interest. The weighted average ownership percentages during the period are used to calculate the net income or loss and other comprehensive income or loss attributable to Switch, Inc. and the noncontrolling interest.

Results of Operations

The following table sets forth our results of operations:

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
	(in thousands)	
Consolidated Statements of Operations Data:		
Revenue	$ 128,096	$ 107,442
Cost of revenue	67,029	57,525
Gross profit	61,067	49,917
Selling, general and administrative expense	40,116	34,251
Income from operations	20,951	15,666
Other income (expense):		
Interest expense, including amortization of debt issuance costs	(7,435)	(7,131)
Loss on interest rate swaps	(17,555)	(4,985)
Other	277	502
Total other expense	(24,713)	(11,614)
(Loss) income before income taxes	(3,762)	4,052
Income tax benefit (expense)	273	(206)
Net (loss) income	(3,489)	3,846
Less: net (loss) income attributable to noncontrolling interest	(2,273)	3,113
Net (loss) income attributable to Switch, Inc.	$ (1,216)	$ 733

The following table sets forth the consolidated statements of operations data presented as a percentage of revenue. Amounts may not sum due to rounding.

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Consolidated Statements of Operations Data:		
Revenue	100 %	100 %
Cost of revenue	52	54
Gross profit	48	46
Selling, general and administrative expense	31	32
Income from operations	17	15
Other income (expense):		
Interest expense, including amortization of debt issuance costs	(6)	(7)
Loss on interest rate swaps	(14)	(5)
Other	—	—
Total other expense	(19)	(11)
(Loss) income before income taxes	(2)	4
Income tax benefit (expense)	—	—
Net (loss) income	(2)	4
Less: net (loss) income attributable to noncontrolling interest	(1)	3
Net (loss) income attributable to Switch, Inc.	(1)%	1 %

Comparison of the Three Months Ended March 31, 2020 and 2019

Revenue

	Three Months Ended March 31,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Colocation	$ 101,214	$ 86,485	$ 14,729	17 %
Connectivity	25,191	18,995	6,196	33 %
Other	1,691	1,962	(271)	(14)%
Revenue	$ 128,096	$ 107,442	$ 20,654	19 %

Revenue increased by $20.7 million, or 19%, for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. The increase was primarily attributable to an increase of $14.7 million in colocation revenue. Of the overall increase, 56% was attributable to revenue from new customers initiating service after March 31, 2019, and the remaining 44% was attributable to increased revenue from existing customers. Additionally, during the three months ended March 31, 2020, connectivity revenue included $4.2 million in non-recurring sales-type lease revenue. There was no sales-type lease revenue during the three months ended March 31, 2019.

Cost of Revenue and Gross Margin

	Three Months Ended March 31,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Cost of revenue	$ 67,029	$ 57,525	$ 9,504	17 %
Gross margin	47.7 %	46.5 %		

Cost of revenue increased by $9.5 million, or 17%, for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. The increase was primarily attributable to increases of $3.4 million in depreciation and amortization expense due to additional property and equipment being placed into service, $2.8 million in costs related to sales-type lease transactions, $1.9 million in connectivity costs and facilities costs associated with increased occupancy as a result of expansion activities, and $1.4 million in salaries and related employee expenses largely due to an increase in headcount. There were no sales-type lease transactions during the three months ended March 31, 2019. Gross margin increased by 120 basis points for the three months ended March 31, 2020, compared to the three months ended March 31, 2019.

Selling, General and Administrative Expense

	Three Months Ended March 31,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Selling, general and administrative expense	$ 40,116	$ 34,251	$ 5,865	17 %

Selling, general and administrative expense increased by $5.9 million, or 17%, for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. The increase was primarily attributable to increases of $2.7 million in professional fees for accounting, consulting, and legal services and $1.5 million in salaries and related employee expenses, $2.2 million of which is largely due to an increase in headcount, partially offset by a decrease of $0.7 million in non-cash compensation expense primarily related to certain equity awards granted in 2017. Additionally, there were increases of $0.5 million in depreciation and amortization expense and $0.3 million in commission expense for commissions paid to partners.

Other Income (Expense)

	Three Months Ended March 31,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Other income (expense):				
Interest expense	$ (7,435)	$ (7,131)	$ (304)	4 %
Loss on interest rate swaps	(17,555)	(4,985)	(12,570)	252 %
Other	277	502	(225)	(45)%
Total other expense	$ (24,713)	$ (11,614)	$ (13,099)	113 %

Interest Expense

Interest expense increased by $0.3 million, or 4%, for the three months ended March 31, 2020, compared to the three months ended March 31, 2019, resulting primarily from an increase in our weighted average debt outstanding due to borrowings on our revolving credit facility after the three months ended March 31, 2019. This was partially offset by a decrease in our weighted average interest rate from 4.75% during the three months ended March 31, 2019 to 3.72% during the three months ended March 31, 2020.

Loss on Interest Rate Swaps

Loss on interest rate swaps increased by $12.6 million, or 252%, for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. The increase was driven by changes in the fair value of interest rate swaps largely from fluctuation in market interest rates.

Other

Other income decreased by $0.2 million, or 45%, for the three months ended March 31, 2020, compared to the three months ended March 31, 2019. The decrease was primarily due to a decrease in interest income earned on our cash equivalents.

Income Tax Benefit (Expense)

	Three Months Ended March 31,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Income tax benefit (expense)	$ 273	$ (206)	$ 479	(233)%

During the three months ended March 31, 2020, we incurred $0.3 million of income tax benefit, compared to $0.2 million of income tax expense during the three months ended March 31, 2019. Income tax benefit (expense) is driven by our allocable share of Switch, Ltd.'s (loss) income before income taxes.

Net (Loss) Income Attributable to Noncontrolling Interest

	Three Months Ended March 31,		Change	
	2020	2019	Amount	%
	(dollars in thousands)			
Net (loss) income attributable to noncontrolling interest	$ (2,273)	$ 3,113	$ (5,386)	(173)%

Net loss attributable to noncontrolling interest was $2.3 million for the three months ended March 31, 2020, compared to net income attributable to noncontrolling interest of $3.1 million for the three months ended March 31, 2019. The change was the result of Switch, Ltd. incurring a net loss during the three months ended March 31, 2020.

Liquidity and Capital Resources

Switch, Inc. is a holding company and has no material assets other than its ownership of Common Units. As such, we have no independent means of generating revenue or cash flow, and our ability to pay our taxes and operating expenses or declare and pay dividends in the future, if any, will be dependent upon the financial results and cash flows of Switch, Ltd. and its subsidiaries and any distributions we receive from Switch, Ltd. The terms of the amended and restated credit agreement limit the ability of Switch, Ltd., among other things, to incur additional debt, incur additional liens, encumbrances or contingent liabilities, and pay distributions or make certain other restricted payments.

As of March 31, 2020, we had $64.7 million in cash and cash equivalents. As of March 31, 2020, our total indebtedness was $877.7 million consisting of (i) $580.1 million principal from our term loan facility (net of debt issuance costs), (ii) $240.0 million from our revolving credit facility, and (iii) $57.6 million from our finance lease liabilities. As of March 31, 2020, we had access to $260.0 million in additional liquidity from our revolving credit facility. For the year ending December 31, 2020, we expect to incur $290 million to $340 million in capital expenditures for development and construction projects related to our expansion (excluding acquisitions of land); however, the exact amount will depend on a number of factors. We believe we have sufficient cash and access to liquidity, coupled with anticipated cash generated from operating activities, to satisfy our anticipated cash needs for working capital and capital expenditures for at least the next 12 months, including repayment of the current portion of our debt as it becomes due and completion of our development projects. We also believe that our financial resources will allow us to manage the anticipated impact of COVID-19 on our business operations for the foreseeable future, which could include reductions in revenue and delays in payments from customers and partners. The challenges posed by COVID-19 on our business are expected to evolve. Consequently, we will continue to evaluate our financial position in light of future developments, particularly those relating to COVID-19.

In addition, we are obligated to make payments under the Tax Receivable Agreement (“TRA”). Although the actual timing and amount of any payments we make under the TRA will vary, we expect those payments will be significant. Any payments we make under the TRA will generally reduce the amount of overall cash flow that might have otherwise been available to us or to Switch, Ltd. and, to the extent we are unable to make payments under the TRA for any reason, the unpaid amounts generally will be deferred and will accrue interest until paid by us.

In May 2020, our board of directors authorized the repurchase by Switch, Ltd. of up to $20.0 million of its outstanding Common Units held by our founder members, with any unused amount from this authorization expiring on June 16, 2020.

Cash Flows

The following table summarizes our cash flows:

	Three Months Ended March 31	
	2020	2019
	(in thousands)	
Net cash provided by operating activities	$ 62,558	$ 51,922
Net cash used in investing activities	(81,499)	(46,229)
Net cash provided by (used in) financing activities	58,931	(295)
Net increase in cash and cash equivalents	$ 39,990	$ 5,398

Cash Flows from Operating Activities

Cash from operating activities is primarily generated from operating income from our colocation and connectivity services.

Net cash provided by operating activities for the three months ended March 31, 2020 was $62.6 million, compared to $51.9 million for the three months ended March 31, 2019. The increase of $10.6 million was primarily due to increased operations in our expanded data center facilities and changes in our working capital accounts.

Cash Flows from Investing Activities

During the three months ended March 31, 2020, net cash used in investing activities was $81.5 million, primarily consisting of capital expenditures of $80.9 million related to the expansion of our data center facilities.

During the three months ended March 31, 2019, net cash used in investing activities was $46.2 million, primarily consisting of capital expenditures of $45.9 million related to the expansion of our data center facilities.

Cash Flows from Financing Activities

During the three months ended March 31, 2020, net cash provided by financing activities was $58.9 million, primarily consisting of $70.0 million in proceeds from borrowings on our revolving credit facility, partially offset by distributions paid to noncontrolling interest of $4.2 million, payments of tax withholdings upon settlement of restricted stock unit awards of $4.0 million, and dividends paid of $2.8 million.

During the three months ended March 31, 2019, net cash used in financing activities was $0.3 million, consisting of repayments of borrowings outstanding under our term loan of $1.5 million and payments of tax withholdings upon settlement of restricted stock unit awards of $1.3 million, partially offset by a $2.5 million refund on deposits related to our substation finance lease.

Outstanding Indebtedness

On June 27, 2017, we entered into an amended and restated credit agreement with Wells Fargo Bank, National Association, as administrative agent, and certain other lenders, consisting of a $600.0 million term loan facility, maturing on June 27, 2024, and a $500.0 million revolving credit facility, maturing on June 27, 2022, which replaced our prior credit facility. We refer to the term loan facility and the revolving credit facility as the credit facilities. We are required to repay the aggregate outstanding principal amount of the initial term loan in consecutive quarterly installments of $1.5 million, beginning on September 30, 2017, until the final payment of $559.5 million is made on the maturity date.

The amended and restated credit agreement permits the issuance of letters of credit upon our request of up to $30.0 million. As of March 31, 2020, we had $240.0 million outstanding under the revolving credit facility accruing interest at an underlying variable rate of 2.69% and $260.0 million of availability. As of March 31, 2020, we had $580.1 million outstanding under the term loan (net of deferred debt issuance costs) with $400.0 million effectively fixed at 4.73% pursuant to interest rate swap agreements entered into in January and February 2019 and the remaining borrowings outstanding accruing interest at an underlying variable rate of 3.24%. Upon satisfying certain conditions, the amended and restated credit agreement provides that we can increase the amount available for borrowing under the credit facilities no more than five times (up to an additional $75.0 million in total, plus an additional amount subject to certain leverage restrictions) during the term of the amended and restated credit agreement.

The credit facilities are secured by a first priority security interest in substantially all of Switch, Ltd.'s tangible and intangible personal property and guaranteed by certain of its wholly-owned subsidiaries. Interest on the credit facilities is calculated based on the base rate plus the applicable margin or a LIBOR rate plus the applicable margin (each as defined in the amended and restated credit agreement), at our election. Interest calculations are based on 365/366 days for a base rate loan and 360 days for a LIBOR loan. Base rate interest payments are due and payable in arrears on the last day of each calendar quarter. LIBOR rate interest payments are due and payable on the last day of each selected interest period (not to extend beyond three-month intervals). In addition, under the revolving credit facility we incur a fee on unused lender commitments based on the applicable margin and payment is due and payable in arrears on the last day of each calendar quarter.

The credit agreement contains affirmative and negative covenants customary for such financings, including, but not limited to, limitations, subject to specified exceptions and baskets, on incurring additional debt, incurring additional liens, encumbrances or contingent liabilities, making investments in other persons or property, selling or disposing of our assets, merging with or acquiring other companies, liquidating or dissolving ourselves or any of the subsidiary guarantors, engaging in any business that is not otherwise a related line of business, engaging in certain transactions with affiliates, paying dividends or making certain other restricted payments, and making loans, advances or guarantees. The terms of the credit agreement also require compliance with the consolidated total leverage ratio (as defined in the amended and restated credit agreement) starting with the fiscal quarter ended June 30, 2017. As of March 31, 2020, the maximum consolidated total leverage ratio was 4.25 to 1.00. The maximum consolidated total leverage ratio decreases over time to, and remains at, 4.00 to 1.00 for the quarters ending September 30, 2020 and thereafter through maturity. We were in compliance with this and our other covenants under the credit agreement as of March 31, 2020.

Events of default under the credit facilities, subject to specified thresholds, include but are not limited to: nonpayment of principal, interest, fees or any other payment obligations thereunder; failure to perform or observe covenants, conditions or agreements; material violation of any representation, warranty or certification; cross-defaults to certain material indebtedness; bankruptcy or insolvency of Switch Ltd.'s subsidiary guarantors; certain monetary judgments against the subsidiary guarantors; and any change of control occurrence.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements for any of the periods presented.

Contractual Obligations

In January and March 2020, we entered into two power purchase and sale agreements for electricity to purchase an aggregate firm commitment of 75 MW per energy hour for a term of one year starting on July 1, 2020, or a total purchase commitment of $23.8 million, inclusive of scheduling services. Additional franchise tax amounts may be due based on the data center location where the purchased power is used.

In January and March 2020, we borrowed an aggregate of $70.0 million under our revolving credit facility.

Outside of the aforementioned, and any routine transactions made in the ordinary course of business, there have been no material changes to the contractual obligations as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP. The preparation of these consolidated financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, costs and expenses and related disclosures. Our estimates are based on our historical experience and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these judgments and estimates under different assumptions or conditions and any such differences may be material. On an ongoing basis, we evaluate the continued appropriateness of our accounting policies and resulting estimates to make adjustments we consider appropriate under the facts and circumstances. There have been no significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2019.

Cautionary Note Regarding Forward-Looking Statements

This Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, which statements involve substantial risks and uncertainties. Forward-looking statements generally relate to future events or our future financial or operating performance. In some cases, you can identify forward-looking statements because they contain word such as “may,” “will,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these words or other similar terms or expressions that concern our expectations, strategy, plans or intentions. Forward-looking statements contained in this Form 10-Q include, but are not limited to, statements about:

- our goals and strategies;
- our expansion plans, including timing for such plans;
- our future business development, financial condition and results of operations;
- the expected growth of the data center market;
- our belief regarding the anticipated impact of COVID-19 on our business operations;
- our beliefs regarding our design technology and its advantages to our business and financial results;
- our beliefs regarding opportunities that exist in the data center market due to current industry limitations;
- our expectations regarding opportunities to grow penetration of existing customers and attract new customers;
- our beliefs regarding our competitive strengths and the value of our brand;
- our expectations regarding our revenue streams and drivers of future revenue;
- our expectations regarding our future expenses, including anticipated increases;
- our expectations regarding demand for, and market acceptance of, our services, including any new services;
- our expectations regarding our customer growth rate;
- our estimated capital expenditures for 2020;
- our beliefs regarding the sufficiency of our cash and access to liquidity, and cash generated from operating activities, to satisfy our working capital and capital expenditures for at least the next 12 months;
- our intentions regarding sources of financing for our operations and capital expenditures;
- the network effects associated with our business;
- our plans to further invest in and grow our business, and our ability to effectively manage our growth and associated investments;

- our ability to timely and effectively scale and adapt our existing technology;
- our ability to successfully enter new markets;
- our expectations to enter into joint ventures, strategic collaborations and other similar arrangements;
- our beliefs regarding our ability to achieve reduced variability of power costs as an unbundled purchaser of energy;
- our beliefs that we have the necessary permits and approvals to operate our business and that our properties are in substantial compliance with applicable laws;
- our ability to maintain, protect and enhance our intellectual property and not infringe upon others' intellectual property;
- our beliefs regarding the adequacy of our insurance coverage;
- our beliefs regarding the effectiveness of efforts to improve our internal control over financial reporting;
- our plans regarding our Common Unit repurchase program;
- our expectations regarding payment of dividends; and
- our expectations regarding payments under the TRA, contingent upon our taxable income and the applicable tax rate.

We qualify all of our forward-looking statements by these cautionary statements. The forward-looking statements in this Form 10-Q are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as predictions of future events. The events and circumstances reflected in our forward-looking statements may not be achieved or occur and actual results could differ materially from those projected in the forward-looking statements. The most important factors that could prevent us from achieving our goals and cause the assumptions underlying forward-looking statements and the actual results to differ materially from those expressed in or implied by the forward-looking statements include, but are not limited to, the following:

- our ability to successfully implement our business strategies;
- our ability to effectively manage our growth and expansion plans;
- delays or unexpected costs in development and opening of data center facilities;
- any slowdown in demand for our existing data center resources;
- our ability to attract new customers and achieve sufficient customer demand to realize future expected returns on our investments;
- our ability to license space in our existing data centers, including in our new Keep Campus;
- the impact of epidemics, pandemics or outbreaks, including COVID-19, on our business and those of our customers and suppliers;
- the geographic concentration of our data centers in certain markets;
- local economic, credit and market conditions that impact our customers in these markets;
- the impact of delays or disruptions in third-party network connectivity;
- developments in the technology and data center industries in general that negatively impact us, including development of new technologies, adoption of new industry standards, declines in the technology industry or slowdown in the growth of the Internet;
- our ability to adapt to evolving technologies and customer demands in a timely and cost-effective manner;
- financial market fluctuations;
- our ability to obtain necessary capital to fund our capital requirements and our ability to continue to comply with covenants and terms in our credit instruments;
- our ability to generate sufficient cash flow to meet our debt service and working capital requirements;
- our ability to collect revenue on a timely basis;
- fluctuations in interest rates and increased operating costs, including power costs;
- significant disruptions, security breaches, including cyber security breaches, or system failures at any of our data center facilities;
- our ability to effectively compete in the data center market;
- the success of our strategic partnerships;
- our ability to protect our intellectual property rights and not infringe upon others' intellectual property rights;
- loss of significant customers or key personnel;
- losses in excess of our insurance coverage, including due to natural disasters and other unforeseen damage;
- impact of the outcome of pending or future litigation;
- the impact of future changes in legislation and regulations, including changes in real estate and zoning laws, ABA, environmental and other laws that impact our business and industry;

- the success of our solar project;
- future increases in real estate taxes;
- early termination of data center leases or inability to renew on commercially acceptable terms;
- our ability to successfully identity and consummate future joint ventures, acquisitions or other strategic transactions;
- our realization of any benefit from the TRA, our Common Unit repurchase plan and our organizational structure;
- our ability to sufficiently remediate the material weakness identified in our internal control over financial reporting;
- volatility of our stock price, including due to future issuances of our Class A common stock upon redemption or exchange of Common Units; and
- our ability to successfully estimate the impact of certain accounting and tax matters, including the effect on our company of adopting certain accounting pronouncements.

The foregoing list of important factors does not include all such factors, nor necessarily present them in order of importance. In addition, you should consult other disclosures made by us (such as in our other filings with the SEC or in company press releases) for other factors that may cause actual results to differ materially from those projected by us. You should read this Form 10-Q, and the documents that we reference in this Form 10-Q and have filed with the SEC, and our Annual Report on Form 10-K for the year ended December 31, 2019, with the understanding that our actual future results, levels of activity, performance, and events and circumstances may be materially different from what we expect.

Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to financial market risks, primarily in interest rates related to our debt obligations.

Interest Rate Risk

Our primary exposure to market risk is interest rate risk associated with our long-term debt. We evaluate our exposure to market risk by monitoring interest rates in the marketplace. As of March 31, 2020, borrowings under our amended and restated credit agreement bear interest at a margin above LIBOR or base rate (each as defined in the amended and restated credit agreement) as selected by us. In January and February 2019, we entered into four interest rate swap agreements; whereby, we pay a weighted average fixed interest rate (excluding the applicable interest margin) of 2.48% on notional amounts corresponding to borrowings of $400.0 million in exchange for receipts on the same notional amount at a variable interest rate based on the applicable LIBOR at the time of payment. The interest rate swap agreements mature in June 2024. As of March 31, 2020, we had $423.5 million outstanding under our credit facilities with an underlying variable interest rate of 2.93%. As of March 31, 2020, a hypothetical increase or decrease of 100 basis points in LIBOR would cause our annual interest cost to change by $4.2 million.

As of March 31, 2020, we had cash and cash equivalents of $64.7 million with cash equivalents of $27.2 million held in money market funds. A hypothetical increase or decrease of 100 basis points in the interest rate on our cash equivalents held in money market funds as of March 31, 2020 would cause our annual interest income to change by $0.3 million.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated, as of March 31, 2020, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended, or the “Exchange Act”). Based on their evaluation, as of March 31, 2020, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective because of the material weakness in our internal control over financial reporting described below.

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Material Weakness

As of December 31, 2019, we had a material weakness in our internal control over financial reporting. A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

The material weakness, which was identified in connection with the audit of our 2017 consolidated financial statements, related to an insufficient complement of resources with an appropriate level of accounting expertise, knowledge, and training commensurate with the complexity of our financial reporting matters. This material weakness led to pervasive immaterial adjustments to our annual and interim consolidated financial statements, inadequate review over account reconciliations and the inability to maintain segregation of duties over journal entries resulting in the lack of an effective control environment. We concluded this material weakness continued to exist as of March 31, 2020.

Additionally, this material weakness could result in a misstatement of our account balances or disclosures that would result in a material misstatement of the annual or interim consolidated financial statements that would not be prevented or detected.

Material Weakness Remediation Efforts

We have implemented and continue to implement measures designed to improve our internal control over financial reporting to remediate this material weakness, including hiring additional personnel with appropriate education, experience and certifications for key positions in the financial reporting and accounting function, as well as designing and implementing improved processes and internal controls, including transaction-level controls, controls over the maintenance of appropriate segregation of duties over journal entries, account reconciliations, and strengthening supervisory reviews by our management.

While we believe that these efforts will improve our internal control over financial reporting, the implementation of these measures is ongoing and will require validation and testing of the design and operating effectiveness of internal controls over a sustained period of financial reporting cycles. Due to this ongoing testing, we cannot provide assurance that the measures we have taken to date, and are continuing to implement, will be sufficient to remediate the material weakness we have identified or avoid potential future material weaknesses. If the steps we take do not correct the material weakness in a timely manner, we will be unable to conclude that we maintain effective internal control over financial reporting. Accordingly, there could continue to be a reasonable possibility that a material misstatement of our financial statements would not be prevented or detected on a timely basis.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. Legal Proceedings.

On September 7, 2017, Switch, Ltd. and Switch, Inc. were named in a lawsuit filed in the U.S. District Court for the District of Nevada by V5 Technologies formerly d/b/a Cobalt Data Centers. The lawsuit alleges, among other things, that Switch, Ltd. and Switch, Inc. monopolized the Las Vegas Metropolitan area of Southern Nevada's data center colocation market and engaged in unfair business practices leading to the failure of Cobalt Data Centers in 2015 and seeks monetary damages in an amount yet to be disclosed. Discovery closed in February 2020. In March 2020, both parties filed motions for summary judgment and are waiting for the court to rule on the motions. Switch, Ltd. and Switch, Inc. are vigorously defending the case.

On September 12, 2017, Switch, Ltd. filed a complaint in the Eighth Judicial District of Nevada against the consultant, Stephen Fairfax, and his business, MTechnology Inc. Among other claims, Switch raised allegations of breach of contract and misappropriation of trade secrets. The complaint also alleged that Aligned Data Centers LLC ("Aligned") hired Mr. Fairfax and MTechnology Inc. to design their data centers; that this consultant had toured Switch under a non-disclosure agreement; and that this consultant breached his confidentiality agreements with Switch by using Switch's designs to design the Aligned data centers. Switch, Ltd. is seeking an injunction to prevent the defendants in the lawsuit from infringing Switch, Ltd.'s patents, as well as other remedies. The parties are currently engaged in discovery.

Four substantially similar putative class action complaints, captioned Martz v. Switch, Inc. et al. (filed April 20, 2018); Palkon v. Switch, Inc. et al. (filed April 30, 2018); Chun v. Switch, Inc. et al. (filed May 11, 2018); and Silverberg v. Switch, Inc. et al. (filed June 6, 2018), were filed in the Eighth Judicial District of Nevada, and subsequently consolidated into a single case (the "State Court Securities Action"). Additionally, on June 11, 2018, one putative class action complaint captioned Cai v. Switch, Inc. et al. was filed in the United States District Court for the District of New Jersey (the "Federal Court Securities Action," and collectively with the State Court Securities Action, the "Securities Actions") and subsequently transferred to the Eighth Judicial District of Nevada in August 2018 and the federal court appointed Oscar Farach lead plaintiff. These lawsuits were filed against Switch, Inc., certain current and former officers and directors and certain underwriters of Switch, Inc.'s IPO alleging federal securities law violations in connection with the IPO. These lawsuits were brought by purported stockholders of Switch, Inc. seeking to represent a class of stockholders who purchased Class A common stock in or traceable to the IPO, and seek unspecified damages and other relief. In October 2018, the state court granted the defendants' motion to stay the State Court Securities Action in favor of the Federal Court Securities Action, which stay was affirmed by the Nevada Supreme Court in September 2019. With respect to the Federal Court Securities Action, in July 2019, the federal court granted Switch, Inc.'s motion to dismiss in part, which narrowed the scope of the plaintiff's case. In December 2019, Switch, Inc. filed a motion for judgment on the pleadings and the parties are waiting for the federal court to rule on the motion. The parties are currently engaged in discovery in the Federal Court Securities Action. Switch, Inc. believes that these lawsuits are without merit and intends to continue to vigorously defend against them.

On September 10, 2018, two purported stockholders of Switch, Inc. filed substantially similar shareholder derivative complaints, respectively captioned Liu v. Roy et al., and Zhao v. Roy et al., in the Eighth Judicial District of Nevada, which were subsequently consolidated into a single case (the "Derivative Shareholder Action"). These lawsuits allege breaches of fiduciary duty, unjust enrichment, waste of corporate assets, abuse of control, and gross mismanagement against certain current and former officers and directors of Switch, Inc. The plaintiffs also named Switch, Inc. as a nominal defendant. The complaints arise generally from the same allegations described in the State Court Securities Action and Federal Court Securities Action. The plaintiffs seek unspecified damages on Switch, Inc.'s behalf from the officer and director defendants, certain corporate governance actions, compensatory awards, and other relief. In December 2019, the court granted the parties' stipulation to stay the Derivative Shareholder Action until the earlier of any of the following events: the Securities Actions are resolved with prejudice as to each defendant or a motion for summary judgment is resolved in the Federal Court Securities Action.

The outcomes of the legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to the Company's financial condition, results of operations, and cash flows for a particular period. Where the Company is a defendant, it will vigorously defend against the claims pleaded against it. These actions are each in preliminary stages and management has determined that based on proceedings to date, it is currently unable to determine the probability of the outcome of these actions or the range of reasonably possible loss, if any.

Item 1A. Risk Factors.

Except as provided below, there have been no material changes with respect to the risk factors disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2019.

Our business and those of our customers and suppliers may be adversely affected by epidemics, pandemics or other outbreaks.

The effects of epidemics, pandemics or other outbreaks of an illness, disease or virus are uncertain and difficult to predict. The COVID-19 pandemic is causing significant disruptions to the United States and global economies and has contributed to significant volatility and negative pressure in financial markets. The global impact of the outbreak is rapidly evolving, and any preventative or protective actions that we may take in response to COVID-19 or any other global health threat or pandemic may result in business and/or operational disruption.

Our customers' businesses could be disrupted, which would affect their ability to make payments to us, and our revenues could be negatively affected. Additionally, global economic disruptors like COVID-19 could negatively impact our supply chain and cause delays in the construction or development of our data centers due to disruptions in the supply of materials or products or the inability of our contractors to perform on a timely basis or at all. It may not be possible to find replacement products or supplies and ongoing delays could affect our business and growth.

The extent to which COVID-19 impacts our and our customers' operations will depend on future developments, which are highly uncertain and cannot be predicted, including, among others, the duration and severity of the outbreak, new information that might emerge, governmental measures, and the actions taken to contain COVID-19 or treat its impact. These and other potential impacts of epidemics, pandemics or other outbreaks of an illness, disease or virus could have a material adverse effect on our business, financial condition and results of operations.

Item 6. Exhibits.

			Incorporated by Reference		
Exhibit No.		**Exhibit Description**	**Form**	**Exhibit**	**Filing Date**
3.1		Amended and Restated Articles of Incorporation of Switch, Inc.	8-K	3.1	10/11/2017
3.2		Amended and Restated Bylaws of Switch, Inc.	8-K	3.2	10/11/2017
10.1	*	Real Property Purchase Agreement, dated April 28, 2020, by and between Beltway Business Park, L.L.C. and NV LAS DEC, LLC.			
31.1	*	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
31.2	*	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
32.1	#	Certifications of the Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
101	*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the three months ended March 31, 2020, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Comprehensive (Loss) Income, (iii) Consolidated Statements of Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Condensed Notes to Consolidated Financial Statements			
104	*	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)			

* Filed herewith.
# Furnished herewith.

SIGNATURES

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

Switch, Inc.
(Registrant)

Date: May 11, 2020

/s/ Gabe Nacht

Gabe Nacht
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

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Section 2: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

REAL PROPERTY PURCHASE AGREEMENT

BETWEEN

BELTWAY BUSINESS PARK, L.L.C.,
A Nevada Limited Liability Company
("Seller")

AND

NV LAS DEC, LLC
A Nevada Limited Liability Company

("Purchaser")

April 28th, 2020
Date

Nevada Title Company
(“Escrow Agent”)

Escrow No. NCS-969567

Approximately 2.07 acres located
in
Clark County, Nevada
APN No. 176-01-201-007

REAL PROPERTY PURCHASE AGREEMENT

THIS REAL PROPERTY PURCHASE AGREEMENT ("Agreement") is made this April 28th, 2020 ("Effective Date"), by and between the Seller and Purchaser hereinafter identified in Sections 1.2 and 1.3 hereof, respectively, and constitutes an agreement between the parties for the purchase of the Property as identified in Section 1.5 hereof on the terms and conditions and with and subject to the covenants and agreements of the parties hereinafter.

WITNESSETH

WHEREAS, Seller is the owner of certain real property located in the County of Clark (the "County"), State of Nevada, as more particularly described in Section 1.5 below (the "Property").

WHEREAS, Purchaser desires to purchase the Property from Seller and Seller desires to sell the Property to Purchaser.

NOW, THEREFORE, in consideration of the mutual covenants and agreements set forth herein and in the other documents referred to herein relating to the purchase, sale, and development of the Property and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Seller and Purchaser agree as follows:

1. **Basic Provisions/Definitions**.

The following are certain provisions, which are a part of, and, in certain instances, referred to, in subsequent provisions of this Agreement and unless otherwise stated in this Agreement, the following terms will have the following meanings:

SECTION 1.1 **EFFECTIVE DATE OF THIS AGREEMENT:**	April 28th, 2020	
SECTION 1.2 **SELLER:**	BELTWAY BUSINESS PARK, L.L.C., a Nevada limited liability company	
SECTION 1.3 **PURCHASER:**	NV LAS DEC, LLC, a Nevada limited liability company	
SECTION 1.4 **PURCHASER'S TRADE NAME:**	N/A	
SECTION 1.5 **PROPERTY:**	The real property comprising (+/-) 2.07 acres of land and improvements (APN Number: 176-01-201-007), as depicted on Exhibit "A" attached hereto and made a part hereof together with all other rights, privileges and appurtenances belonging or in any way pertaining to said real property, including, without limitation, any Seller's rights or interest with respect to rights-of-way on or adjacent to the Property, to the extent existing ("Property").	
SECTION 1.6 **CLOSING DATE:**	The "Closing Date" shall be the day which is: (a) the date 5 days after the completion of the Title Report process set forth in Section 7.1 or (b) such other date as may be chosen by Seller and Purchaser, by joint written notice delivered to Escrow Agent at least five (5) days in advance thereof.	(See Section 8)

SECTION 1.7 PURCHASE PRICE:	Means the aggregate purchase price to be paid by Purchaser for the Property, which amount shall be TWO MILLION FIVE HUNDRED FORTY-SEVEN THOUSAND FIVE HUNDRED DOLLARS AND NO/100) ($2,547,500) (“Purchase Price”) to be paid as set forth in Section 2.1 below.	(See 2.1)
SECTION 1.8 DEPOSIT:	TWENTY-FIVE THOUSAND DOLLARS AND NO/100 ($25,000).	(See Section 2.1)
SECTION 1.9 TERMS OF PAYMENT:	The terms of payment of the Purchase Price shall be as detailed in Section 2.1, below.	(See Section 2.1)
SECTION 1.10 INVESTIGATION PERIOD:	In accordance with Section 2 below, Purchaser shall have the opportunity to perform all due diligence/investigations of the Property, including but not limited to any and all environmental investigations/testing, within 2 business days after the Effective Date (the “Investigation Period”). Purchaser shall have the opportunity to endeavor to obtain all permits, approvals and entitlements necessary to operate the Property as intended by Purchaser, within the Investigation Period. During the Investigation Period, Seller agrees to furnish Purchaser copies of all tests, plans, or reports. If any, obtained by Seller or on behalf of Seller in connection with the site at no cost or expense to Purchaser. In the event of termination of this Agreement, Purchaser agrees to furnish Seller copies of all tests, plans, or reports obtained by Purchaser in connection with the Site, at no cost or expense to Seller.	(See Section 2.2)
SECTION 1.11 GUARANTOR(S):	N/A	
SECTION 1.12 INTENDED USE:	N/A	
SECTION 1.13 BROKER(S):	Seller’s: None. Purchaser’s: None	(See Section 30)

SECTION 1.14 ADDRESSES FOR NOTICES:

Seller: BELTWAY BUSINESS PARK, L.L.C.
2300 West Sahara Avenue
Suite 530
Las Vegas, Nevada 89102
Attn: Thomas A. Thomas
Telephone No. (702) 920-2800
EMail:tthomas@thomas-mack.com

and

George L. Ralphs, Esq.
2300 West Sahara Avenue
Suite 550
Las Vegas, Nevada 89102
Telephone No. (702) 870-1559
E-Mail: glr@ralphslaw.com

Purchaser: NV LAS DEC, LLC
c/o Switch, Ltd.
Attn: Office of the General Counsel
7135 S. Decatur Boulevard
Las Vegas, Nevada 89118
Email: legal@switch.com

SECTION 1.15 NOTICES

Means any notice or other communication required or permitted to be given to the parties hereto. Notices shall be deemed to have been given if in writing and hand delivered (including without limitation a reputable overnight courier service such as but not limited to FedEx and UPS or, if by personal delivery, with acknowledgment of receipt), or mailed by certified or registered mail, return receipt requested, first class postage prepaid or if sent by electronic delivery, addressed as set forth in Section 1.14; or at such other address as the parties hereto may, from time to time, designate in writing. Service by overnight courier or mail shall be deemed made on the first business day delivery is attempted or upon receipt, whichever is earlier. Service by electronic delivery shall be deemed made upon confirmed transmission, if during normal business hours at the recipient’s location and the recipient is also notified via telephone at the applicable number set forth above during normal business hours at the recipient’s location within 24 hours of such transmission and a duplicate copy of such notice is sent via hand delivery or mail in accordance with the foregoing.

SECTION 1.16 ESCROW AGENT

Means First American Title insurance Company, whose address is: 8311 W. Sunset Rd., Suite 100, Las Vegas, Nevada 89113, Attn: Anastasia Dion or other Escrow Agent as designated by the Seller. This Agreement shall constitute Escrow Agent's instructions. Seller and Purchaser agree to execute and deliver to Escrow Agent such additional and supplemental instructions as Escrow Agent may require in order to clarify Escrow Agent's duties under this Agreement; provided, however, that in the event of any conflict or inconsistency between this Agreement and any instructions delivered to Escrow Agent, the terms of this Agreement shall govern the duties of Escrow Agent and the rights and obligations of Seller and Purchaser unless

	such instructions are signed by both Seller and Purchaser and expressly state that they govern in the event of any conflict with this Agreement.	
SECTION 1.17 INTENTIONALLY OMITTED		
SECTION 1.18 CLOSING	Means the effective transfer of the Property from Seller to Purchaser in exchange for the payment by Purchaser to Seller of the Purchase Price in accordance with the terms and conditions of this Agreement. Escrow shall close on the Closing Date.	(See Section 8)
SECTION 1.19 OPENING OF ESCROW	Means the date upon which Escrow Agent has received a fully signed original, or counterpart originals, of this Agreement, accompanied by the sums and documents required herein.	
SECTION 1.20 PLACE OF CLOSING	Means the offices of the Escrow Agent.	
SECTION 1.21 TITLE INSURANCE COMPANY	Means First American Title insurance Company, whose address is: 8311 W. Sunset Rd., Suite 100, Las Vegas, Nevada 89113, Attn: Anastasia Dion, or other Escrow Agent as designated by the parties.	

2. **<u>Sale and Purchase of Property/Investigation Period</u>**.

2.1 The Purchase Price shall be paid by Purchaser as follows:

Within two (2) days following the Effective Date, Purchaser shall deposit the sum set forth in Section 1.8 as an earnest money deposit with Escrow Agent (the "Deposit"). As used herein, the term "Deposit" shall include, when paid, the Deposit together with all interest earned thereon. The Deposit shall be in the form of a cashier's check made payable to Escrow Agent or wire transfer of funds to Escrow Agent. **Except as otherwise specifically set forth in Sections 2.2, 7.1, 9 and 13.1(a) below the Deposit shall be non-refundable to the Purchaser and shall be applied toward the Purchase Price at Close of Escrow**.

At the Closing, Purchaser shall pay, to Seller, an amount (the "Closing Payment") equal to the full Purchase Price, less the Deposit, and all interest earned thereon, plus (ii) Purchaser's Closing Costs as defined in Section 12 below, (all in the form of cash or equivalent made payable to Escrow Agent);

2.2 During the Investigation Period, Purchaser shall have the opportunity to perform all due diligence/investigations of the Property. Seller agrees that Purchaser and its agents shall have access to the Property at all reasonable times for the purpose of conducting any inspections, testing or obtaining any other due diligence information, including, but not limited to, engineering, planning, soil and subsoil testing, and any other activities relating to the inspection of the Property as Purchaser deems appropriate or desirable. Purchaser agrees to indemnify and hold Seller harmless with respect to any mechanics' or materialmen's lien, property damage, loss, cost or expense, including reasonable attorneys' fees, in any way related to, or caused by, Purchaser's activities on the Property, except to the extent caused by the negligence or willful misconduct of Seller. Purchaser shall not disturb the Property beyond what is reasonably necessary to conduct its investigation and shall return the Property to substantially the same condition as the Property was in prior to such investigations. Should Purchaser terminate this Agreement prior to the end of the Investigation Period: (i) Purchaser shall have no further right or interest in the Property, and (ii) Purchaser shall return to Seller, copies of all Property Documents. Should the Purchaser require any entitlements and/or survey(s), Purchaser shall pursue the same during the Investigation Period and any delays in obtaining the same shall not extend the term of the Investigation Period or the Closing Date. Notwithstanding anything in this Agreement to the contrary, Purchaser's indemnity obligations under this Section 2.2 shall survive any termination of this Agreement.

Within 5 business days following the Effective Date, Seller shall provide Purchaser with copies of all of the following, to the extent currently within Seller's possession or under its current control (collectively the "Property Documents"): (i) all tests, reports, and assessments prepared by or on behalf of, or in possession of, Seller and relating to the physical condition of the Property; and (ii) all contracts materially affecting the Property. **Purchaser hereby acknowledges that Purchaser shall be solely responsible for determining the accuracy and completeness of the Property Documents and that Seller has not made and does not hereby make any representation or warranty regarding the accuracy or completeness of any of the Property Documents or the sources thereof, except as may be expressly covered by Seller's representations and warranties in this Agreement.** Seller is providing the Property Documents, to Purchaser, solely as an accommodation.

In the event this Agreement is terminated by Purchaser or automatically terminates in accordance with terms and conditions set forth herein, the Deposit, less One Hundred Dollars ($100.00), shall be immediately released to Purchaser and One Hundred Dollars ($100.00) shall be released to Seller as independent consideration for Purchaser's ability to terminate this Agreement during the Investigation Period.

Seller shall not be obligated to allow Purchaser entry upon the Property until Seller has received, from Purchaser, executed copies of certificates of insurance as follows:

Purchaser, at its sole cost and expense, during the entire Investigation Period, shall procure, pay for and keep in full force and effect: (i) a commercial general liability insurance policy (ISO form or equivalent), including insurance against liability under this Agreement with respect to the Property and the operations of Purchaser (and any invitees, agents, contractors, experts, etc.) in, on or about the Property in which the limits with respect to personal liability and property damage shall not be less than One Million Dollars ($1,000,000) per occurrence on a location basis; and such other insurance as from time to time may be required by city, county, state or Federal laws, codes, regulations or authorities or which Seller determines is reasonably necessary or appropriate under the circumstances. Purchaser shall, at its expense, maintain in effect, during the entire Investigation Period, the policies of insurance required under this Article. All policies that Purchaser is required to obtain under this Article shall be issued by insurance companies authorized to do business in the State of Nevada with a Financial Strength Rating of not less than "A" and a Financial Size Category of not less than Class "X", as rated by the most current available "Best's" Insurance Reports. On or before any early entry onto the Property by Purchaser, Purchaser shall furnish Seller with evidence acceptable to Seller that: (i) the policies (or a binder thereof) required pursuant to this Article are in effect and (ii) Seller shall be notified by the carrier in writing thirty (30) days prior to cancellation, material change, or non-renewal of such insurance. The liability insurance policies that Purchaser is required to obtain pursuant to this Article shall name Seller and, upon Seller's request, Seller's mortgagee, if any, as additional insured on such equivalent form as may be approved by Seller and shall be primary policies, and shall not be contributing with and shall be in excess of coverage which Seller may have and shall be unaffected by any insurance or self-insurance Seller may have regardless of whether any other insurance policy names Seller as an insured or whether such insurance stands primary or secondary.

2.3 In the event this Agreement is terminated for any reason, except as provided under Sections 2.2, 7.1, 9 and/or 13.1(a), Seller shall retain the Deposit and any interest accrued thereon, as part of the consideration given to Seller for entering into this Agreement and holding the Property available for Purchaser's investigation. This Section 2.3 shall survive the termination of this Agreement

3. **Water Allocation/Utilities/Roads/Infrastructure**.

3.1 Purchaser acknowledges and agrees that the purchase and sale of the Property does not include any water rights. Purchaser represents that it is not relying on Seller for any water or water facilities.

3.2 Purchaser acknowledges and agrees that the purchase and sale of the Property does not include any utilities. Purchaser represents that it is not relying on Seller for any utilities.

3.3 Purchaser represents that it is not relying on Seller for any access roads.

3.4 Purchaser acknowledges and agrees that little or no improvements or infrastructure exist on the Property. Purchaser represents that it is not relying on Seller for any such infrastructure.

4. **Seller's Representations and Warranties**.

Seller warrants and agrees as follows:

4.1 Seller has good and marketable fee simple title to all the Property, free and clear of all mortgages, encumbrances, pledges, liens, and charges of every kind, nature, or description, except for the Permitted Exceptions.

4.2 Seller is duly organized and validly existing under the laws of the State of Nevada and has all necessary power, right, authority and capacity to enter into and perform this Agreement in accordance with its terms.

4.3 This Agreement has been duly executed by Seller and constitutes the legal, valid, binding and enforceable obligation of Seller.

4.4 Seller is not a “foreign person” as that term is defined in Section 1445 of the Internal Revenue Code of 1986, as amended (“Code”), and applicable regulations.

4.5 The Property is free of any right of possession or claim of right of possession of any party other than Seller, and there are no leases or occupancy agreements currently affecting any portion of the Property. Seller will not further sell, encumber, convey, assign, pledge, lease or contract to sell, convey, assign, pledge, encumber or lease all or any part of the Property, nor restrict the use of all or any part of the Property, nor take or cause or allow to be taken any action in conflict with this Agreement at any time between the Effective Date and (x) Closing, or (y) the earlier termination of this Agreement pursuant to its terms. Seller additionally hereby represents and warrants that no rights of first refusal or similar agreements exist in connection with the Property that would impede Buyer's ability to purchase the Property as provided herein, or that are in any way in contravention of the spirit and intent of this Agreement.

4.6 To Seller’s knowledge, there is no actual or threatened action, litigation, or proceeding by any organization, person, individual or governmental agency (including governmental actions under condemnation authority or proceedings similar thereto) against the Property or Seller, nor has any such organization, person, individual or governmental agency communicated to Seller anything that Seller believes to be a threat of any such action, litigation or proceeding. To Seller’s knowledge, there are no tax certiorari or similar proceedings in effect with respect to the Property.

4.7 To Seller’s knowledge, no Hazardous Materials (as hereinafter defined) have been deposited on or about the Property. “Hazardous Materials " or similar terms shall mean and include asbestos, asbestos-containing materials, petroleum and petroleum products, the group of organic compounds known as polychlorinated biphenyls, and any substances or materials that are regulated, controlled or prohibited under the Resource Conservation and Recovery Act of 1976 ("RCRA"), 42 U.S.C. § 690, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA"), 42 U.S.C. Sections 9601-9657, as amended by the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), or any similar State law or local ordinance or any other environmental law, the Federal Water Pollution Control Act, 33 U.S.C. §1251, the Clean Air Act, 42 U.S.C. § 7401, the Toxic Substances Control Act ("TCSA"), 15 U.S.C.§ 2601, or any similar State law or local ordinance, or any other Federal, State or local environmental statutes, regulations, ordinances or other environmental regulatory requirements.

4.8 Except as noted in Sections 4.1 through 4.7 above, Seller makes no representation or warranty, express or implied, with respect to the Property.

4.9 The words “To Seller’s knowledge” and/or “has no knowledge” signifies that, no facts have come to the attention of the person with the most knowledge regarding the Property that would give actual knowledge or actual notice that any such matters are not accurate, and such person has undertaken no investigation or verification of such matters.

5. **Purchaser Representations and Warranties**.

Purchaser warrants and agrees as follows:

5.1 Purchaser has all necessary power, right, authority and capacity to enter into and perform this Agreement in accordance with its terms.

5.2 This Agreement has been duly executed by Purchaser and the execution and performance of this Agreement will not violate any agreement to which Purchaser is a party or to which it may be bound. There are no suits or actions pending that would in any way interfere with the ability of Purchaser to carry out this Agreement.

5.3 Purchaser represents that Purchaser has the authority to execute this Agreement.

5.4 Purchaser is experienced in and knowledgeable about the ownership and development of real estate, and will rely exclusively on its own consultants, advisors, counsel, employees, agents, principals and/or studies, investigations and/or inspections with respect to the Property, its condition, value and potential. Except as otherwise set forth in Section 4 above, Purchaser agrees that, notwithstanding the fact that it has received certain information from Seller or its agents or consultants, Purchaser has relied solely upon and will continue to rely solely upon its own analysis and will not rely on any information provided by Seller or its agents or consultants.

5.5 **EXCEPT AS EXPRESSLY SET FORTH IN SECTION 4, THE SALE OF THE PROPERTY HEREUNDER IS AND WILL BE MADE ON AN “AS IS” BASIS, WITHOUT REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE, EXPRESS, IMPLIED OR OTHERWISE, INCLUDING, BUT NOT LIMITED TO, ANY REPRESENTATION OR WARRANTY CONCERNING TITLE TO THE PROPERTY, THE PHYSICAL CONDITION OF THE PROPERTY, THE COMPLIANCE OF THE PROPERTY WITH APPLICABLE LAWS AND REGULATIONS (INCLUDING, BUT NOT LIMITED TO, ZONING AND BUILDING CODES OR THE STATUS OF DEVELOPMENT OR USE RIGHTS RESPECTING THE PROPERTY), THE FINANCIAL CONDITION OF THE PROPERTY OR ANY OTHER REPRESENTATION OR WARRANTY RESPECTING ANY INCOME, EXPENSES, CHARGES, LIENS OR ENCUMBRANCES, RIGHTS OR CLAIMS ON, AFFECTING OR PERTAINING TO THE PROPERTY OR ANY PART THEREOF. PURCHASER ACKNOWLEDGES THAT PURCHASER HAS EXAMINED, REVIEWED AND INSPECTED ALL MATTERS, WHICH, IN PURCHASER’S JUDGMENT, BEAR UPON**

THE PROPERTY AND ITS VALUE AND SUITABILITY FOR PURCHASER'S PURPOSES. EXCEPT AS TO MATTERS OTHERWISE SET FORTH IN THIS AGREEMENT, PURCHASER WILL ACQUIRE THE PROPERTY SOLELY ON THE BASIS OF ITS PHYSICAL AND FINANCIAL EXAMINATIONS, REVIEWS AND INSPECTIONS AND THE TITLE INSURANCE PROTECTION AFFORDED BY THE TITLE POLICY. WITHOUT LIMITATION THEREON AND EXCEPT FOR SELLER'S EXPRESS REPRESENTATIONS AND WARRANTIES CONTAINED HEREIN, PURCHASER HEREBY WAIVES AND DISCLAIMS (1) ANY WARRANTY, EXPRESS, IMPLIED OR ARISING BY OPERATION OF LAW, INCLUDING ANY WARRANTY OF HABITABILITY, MERCHANTABILITY, SUITABILITY OR FITNESS FOR A PARTICULAR USE OR PURPOSE.

The terms and provisions of this Section 5 shall survive the Closing and recording of the GBS Deed (as defined below).

6. **Intentionally Omitted.**

7. **Title Report**.

7.1 Except for the Permitted Exceptions set forth in the Title Report (as defined below) ("Permitted Exceptions"), title to the Property shall be free of liens and encumbrances. Seller has furnished Purchaser with a preliminary title report and copies of all exceptions to title referred to therein within 5 business days after Opening of Escrow ("Title Report"). Within 15 days following the Effective Date, Purchaser shall give Seller notice specifying those matters which are not acceptable conditions of title. All exceptions in the Title Report not specifically disapproved by Purchaser within 15 days following the Effective Date shall be deemed to have been approved. Seller shall endeavor to remove such objectionable items within 5 business days thereafter, and if Seller fails to remove such objectionable items within said period, Seller shall notify Purchaser in writing of such fact, and Purchaser shall have the election to be exercised in writing within 5 business days after delivery to Purchaser of such notice by Seller of either:

(a) Terminating this Agreement, in which event Escrow Agent shall return the Deposit and all other funds and documents deposited herein to the party depositing the same;

(b) Granting Seller a 5 day extension of time in order to effect said cure ("Extended Cure Period"); or,

(c) Accepting the Property subject to the objectionable items

If Purchaser fails to make the election to terminate or accept title within the 5 business days period provided or after expiration of the Extended Cure Period, as applicable, Purchaser shall be deemed to have elected to accept the Property subject to the objectionable item. The title matters that Purchaser elects to accept or is deemed to have elected to accept are included in the Permitted Exceptions.

SELLER SHALL NOT BE DEEMED TO BE IN DEFAULT BY VIRTUE OF SELLER'S INABILITY OR UNWILLINGNESS TO REMOVE OR SATISFY ANY TITLE AND/OR SURVEY MATTERS OBJECTED TO BY PURCHASER.

The following shall be Permitted Exceptions:

(a) All restrictions and requirements as may be imposed by any governmental authority (having jurisdiction over the Property) prior to Closing.

(b) all exceptions set forth in the Title Report (which are not disapproved or deemed disapproved pursuant to this Section 7.1).

(c) Intentionally Omitted.

(d) All other rights-of-way apparent from a visual inspection of the Property.

Once title has been approved by Purchaser under this Section, any new title information received by Purchaser from a supplemental title report, survey, or other source that would materially and adversely affect Purchaser's use of the Property (collectively, "New Title Exception") shall be subject to the same procedure provided above (and the Closing Date shall be extended commensurately if the Closing would have occurred but for those procedures being implemented for a New Title Exception), except that the review period shall be reduced to 5 business days.

7.2 At Closing, Seller, at Seller's expense, shall cause Title Insurance Company to deliver to Purchaser an ALTA standard policy of title insurance in accordance with the Title Report ("Title Policy"). If Purchaser requires an ALTA extended policy of title insurance or any endorsements, the costs therefor in excess of those for an ALTA standard policy (without such endorsements) shall be borne by Purchaser. If Purchaser shall require a survey of the Property (either for its own use or for use by a third party, including the Title Company for purposes of issuing the ALTA extended policy), such survey shall be completed, within the Investigation Period and obtained at Purchaser's sole cost.

8. **Date, Place and Terms of Closing**.

The Closing hereunder shall take place at the Place of Closing. The Closing Date will be on that date set forth in Section 1.6, unless extended thereby.

8.1 Items to be delivered at the Closing:

(a) At the Closing, Seller shall deliver to Purchaser each of the following items:

(i) A Grant, Bargain and Sale Deed (attached hereto as Exhibit "C" and incorporated herein) and Declaration Of Value (the "GBS Deed") conveying the Property to Purchaser, duly executed and acknowledged by Seller and in recordable form;

(ii) A non-foreign transferor declaration as provided by the Title Insurance Company duly executed by seller;

(iii) Any executed closing settlement statement, prepared by the Escrow Agent, in its normal course, consistent with the terms of this Agreement;

(iv) Intentionally Omitted; and

(v) Copies of all documents, instruments, contracts and agreements not theretofore delivered as may be reasonably required for completion of the transaction contemplated herein.

(b) At the Closing, Purchaser shall deliver to Seller the following items:

(i) Immediately available collected funds in the form of a cashier's check drawn on a local Las Vegas bank or wire transfer to the account of Escrow Agent in an amount equal to the Closing Payment;

(ii) Any executed closing settlement statement, prepared by the Escrow Agent, in its normal course, consistent with the terms of this Agreement;

(iii) Intentionally Omitted; and

(iv) Copies of all documents, instruments, contracts and agreements not theretofore delivered as reasonably required for completion of the transaction contemplated herein.

8.2 On the Closing Date, immediately upon the conditions precedent to Closing set forth in Sections 9 & 10 hereof having been satisfied or waived by the applicable party, Escrow Agent shall perform the acts set forth below in the following order:

(a) Date, as of the Closing Date, all instruments calling for a date.

(b) Prepare a Declaration of Value in such form as required by Nevada Revised Statutes ("NRS") 375.060 (the "Real Property Transfer Tax Declaration").

(c) Intentionally Omitted.

(d) Record the GBS Deed.

(e) Deliver to Seller by wire transfer of funds an amount equal to the Closing Payment less Seller's Closing Costs and Purchaser's Closing Costs.

(f) Deliver to Purchaser the Title Policy.

(g) Prepare and submit to the Internal Revenue Service the information return and statement concerning the closing of the Escrow (the "Information Return") required by Section 6045(e) of the Internal Revenue Code of 1986, unless the Information Return is not required under the regulations promulgated under Section 6045(e).

8.3 The instruments that are required to be recorded under this Agreement shall provide that the County Recorder shall return them to Escrow Agent after recordation, and upon receipt thereof, Escrow Agent shall deliver the following:

(a) To Seller:

(i) A copy of the GBS Deed, as recorded;

(ii) Intentionally Omitted; and

(iii) Copies of the Real Property Transfer Tax Declaration.

(b) To Purchaser:

(i) The originals of the GBS Deed and the Non-foreign Transferor Declaration;

(ii) Intentionally Omitted; and

(iii) Copies of the Real Property Transfer Tax Declaration.

Those provisions of this Agreement which by their terms are to be performed after Closing or are expressly provided as surviving Closing and which, in either such case, are not incorporated into separate documents executed and delivered at or prior to Closing, shall survive Closing.

9. **Conditions Precedent to the Obligation of Purchaser to Close.**

The obligation of Purchaser to purchase the Property or to otherwise effect the transactions contemplated by this Agreement on the Closing Date is subject, at the option of Purchaser, to the satisfaction or fulfillment, on or prior to the Closing Date (or earlier if indicated below), of all the following conditions precedent to the Closing:

(a) The representations and warranties of Seller set forth in this Agreement shall be true and correct in all material respects on and as of the Closing Date.

(b) All the terms, conditions and covenants to be complied with and performed by Seller, on or prior to the Closing Date, shall have been complied with or performed in all material respects.

(c) The Property shall not have been adversely affected in any material way as a result of fire, hurricane, tornado, storm, condemnation, expropriation, or other casualty or act of God and there shall have been no other changes in the Property since the date of this Agreement that would have a material adverse effect on the value of the Property.

(d) The Title Insurance Company is willing, ready and able to close following compliance with all of the terms, conditions and covenants of this Agreement by the Seller.

The conditions set forth in this Section 9 are for the sole benefit of Purchaser and Purchaser shall have the right, in Purchaser's sole and absolute discretion, to waive any and all of the same. If any such conditions have not been satisfied or waived in writing by Purchaser on or prior to the Closing Date, Purchaser shall have the right, but not the obligation, to terminate this Agreement by giving Seller a written notice of termination and Purchaser shall promptly receive a return of the Deposit. Such right shall be in addition to all other rights and remedies of Purchaser under this Agreement.

10. **Conditions Precedent to the Obligation of Seller to Close**.

The obligation of Seller to sell the Property or to otherwise effect the transactions contemplated by this Agreement on the Closing Date is subject, at the option of Seller, to the satisfaction or fulfillment, on or prior to the Closing Date, of all the following conditions precedent to the Closing.

(a) The representations and warranties of Purchaser set forth in this Agreement shall be true and correct in all material respects on and as of the Closing Date.

(b) All of the terms, conditions and covenants to be complied with and performed by the Purchaser, on or prior to the Closing Date, shall have been complied with and performed in all material respects.

(c) All documents and instruments required to be executed by Purchaser to consummate this Agreement on the Closing Date, shall be reasonably satisfactory in form and substance to counsel for Seller.

The conditions set forth in this Section 10 are for the sole benefit of Seller and Seller shall have the right, in Seller's sole and absolute discretion, to waive any and all of the same. If any such conditions have not been satisfied or waived in writing by Seller on or prior to the Closing Date, Seller shall have the right, but not the obligation, to terminate this Agreement by giving Purchaser a written notice of termination. Such right shall be in addition to all other rights and remedies of Seller under this Agreement.

11. **Intentionally Omitted**.

12. **Closing Costs**.

12.1 All normal adjustments for the Property, including but not limited to taxes, local improvements and assessments, municipal charges, rents, utilities, tenant deposits including interest, prepaid rent, mortgage principal and interest that are applicable with respect to the Property shall be adjusted as of 12:01 a.m. on the Closing Date. All other costs or expenses not otherwise provided for in this Agreement shall be allocated to or apportioned between Purchaser and Seller by Escrow Agent in accordance with customary escrow practices in county in which the Property is located.

12.2 In closing this transaction, the Escrow Agent shall charge the Seller with the following:

(a) The full amount of real estate taxes prorated up to and including the date of transfer of title;

(b) The cost of the Title Report, title search, and Title Policy (except the costs therefor in excess of those for an ALTA standard policy and owner's policy without such endorsements shall be borne by Purchaser) in the amount of the Purchase Price;

(c) One half of the escrow fee and one half of the real property transfer tax imposed on the GBS Deed pursuant to NRS Chapter 375;

(d) All other charges properly borne by the Seller consistent with the terms of this Agreement;

and immediately thereafter shall deliver to the Seller the balance of the funds, in its hands, due under the terms hereof, and any documents due the Seller.

12.3 In closing this transaction, the Escrow Agent shall charge the Purchaser with the following:

(a) The cost of recording the GBS Deed;

(b) That amount by which the cost of furnishing the Title Policy shall exceed Seller's portion of the cost as set forth in Section 7.2;

(c) One half of the escrow fee and one half of the real property transfer tax imposed on the GBS Deed pursuant to NRS Chapter 375; and,

(d) All other charges properly borne by the Purchaser consistent with the terms of this Agreement;

and immediately thereafter, shall deliver to the Purchaser the Title Policy, the recorded GBS Deed or County Recorder's receipt therefor, any prorations to which the Purchaser is entitled, and any other funds or documents due the Purchaser.

12.4 Upon Closing and unless otherwise designated in writing by Purchaser, title shall be vested in Purchaser or its assignees or nominees (if consented to by Seller, in writing, which consent shall not be unreasonably withheld).

13. **Termination**.

13.1 In the event of a default by either party and/or the Closing provided for in this Agreement does not occur, the consequences to both the Seller and the Purchaser shall be those set forth and described in this Section 13 or as otherwise set forth herein. Except as set forth in this Section 13 or as otherwise set forth in this Agreement with respect to surviving obligations, neither party shall have any enforceable claims or causes of action against the other on account of or arising out of this Agreement in the event the Closing does not occur.

(a) In the event that all conditions precedent to Seller's obligation to close have been satisfied or fulfilled on Closing Date, the Purchaser is not in default under this Agreement, the Purchaser is present, ready, willing and able to close on that date, but Seller declines for any reason to close or is otherwise in default under this Agreement, then Purchaser may pursue the following remedies as Purchaser's sole and exclusive remedies):

(i) to waive such default; or

(ii) to terminate this Agreement; and on such termination, the Deposit and all interest thereon will be returned to Purchaser; or

(iii) to demand specific performance (provided that Purchaser first deposits with Escrow Agent full payment of the Purchase Price and performs any other obligations of Purchaser hereunder required to proceed to Closing) of Seller's obligation to sell the Property to Purchaser pursuant to this Agreement without any abatement in the Purchase Price or other consideration and without claim for consequential or speculative damages.

(b) **IN THE EVENT THAT ALL CONDITIONS PRECEDENT TO PURCHASER'S OBLIGATIONS TO CLOSE HAVE BEEN SATISFIED OR FULFILLED ON THE CLOSING DATE, THE SELLER IS PRESENT, READY, WILLING AND ABLE TO CLOSE BUT PURCHASER DECLINES FOR ANY REASON TO CLOSE OR IS OTHERWISE IN DEFAULT UNDER THIS AGREEMENT, THEN SELLER MAY, BY WRITTEN NOTICE TO PURCHASER AND ESCROW AGENT, TERMINATE THIS AGREEMENT AND RECEIVE FROM ESCROW AGENT OR RETAIN, AS THE CASE MAY BE, AS ITS SOLE AND EXCLUSIVE REMEDY, ALL OF THE DEPOSIT AND ALL EARNINGS THEREON AS SELLER'S LIQUIDATED DAMAGES FOR THE BREACH OF THIS AGREEMENT BY PURCHASER. THEREUPON THIS AGREEMENT SHALL TERMINATE AND THE PARTIES SHALL BE RELIEVED OF ALL FURTHER OBLIGATIONS AND LIABILITIES, EXCEPT AS EXPRESSLY SET FORTH BELOW. IT IS EXPRESSLY UNDERSTOOD AND AGREED BETWEEN SELLER AND PURCHASER THAT SELLER'S ACTUAL DAMAGES FOR ANY SUCH BREACH BY PURCHASER HEREUNDER WOULD BE SUBSTANTIAL BUT EXTREMELY DIFFICULT TO ASCERTAIN.**

13.2 In the event this Agreement is terminated, Escrow Agent may charge a termination fee equal to its actual out-of-pocket expenses incurred in connection with the transaction contemplated hereby. If this Agreement is terminated as a result of a default, then any such termination fee shall be paid by the defaulting party. If this Agreement is terminated for any other reason, then any such termination fee shall be paid by the party terminating this Agreement.

14. **Easements Non-exclusive**.

Except as otherwise specifically set forth herein, any easements given by Seller, to Purchaser, pursuant to this Agreement, shall be for the non-exclusive use of Purchaser.

15. **Intentionally Omitted**.

16. **Entire Agreement**.

This Agreement embodies the entire agreement and understanding of the parties hereto and supersedes all previous agreements, arrangements and understandings concerning the subject of this Agreement.

17. **Amendments**.

No amendment to this Agreement, no waiver of compliance with any provision or condition hereof, and no consent provided for herein will be effective unless evidenced by an instrument in writing executed by both parties. No waiver by either party of any condition or other breach of any term, covenant, representation, or warranty contained in this Agreement, in any one or more instances, shall be deemed to be, or construed as, a waiver of any other condition or of the breach of any other term, representation, covenant, or warranty contained in this Agreement.

18. **Successor and Assigns**.

This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and assigns. Purchaser or Seller may assign (if consented to by Seller, in writing, which consent shall not be unreasonably withheld) its rights and obligations under this Agreement to any other person/entity provided, that any such person/entity shall agree, in writing, to be bound by the terms and conditions of this Agreement.

19. **Expense of Sale**.

Seller and Purchaser shall bear their own expenses in connection with the negotiation and consummation of the transactions contemplated by this Agreement.

20. **Captions**.

Captions and section headings contained in this Agreement are for convenience only, do not form a part of this Agreement, and do not define, restrict, or expand the text to which they refer.

21. **Governing Law**.

This Agreement shall be governed by and constructed and enforced in accordance with the internal laws of the State of Nevada, with venue and jurisdiction exclusively in the courts of Clark County, Nevada.

22. **Counterparts/Facsimile, Electronic Execution**.

This Agreement is to be executed in any number of counterparts, each of which shall be an original, but such counterparts together shall constitute one and the same instrument and may be delivered by facsimile or other electronic means in accordance with Section 1.15 above.

23. **Third Parties**.

Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under, or by reason of, this Agreement on any persons other than the parties to it and their respective successors and assigns, nor is anything in this Agreement intended to relieve or discharge the obligation or liability of any third persons to any party to this Agreement, nor shall any provision give any third persons any right of subrogation or action against any party to this Agreement.

24. **Attorney's Fees**.

In the event of default by either party hereunder, the party in default shall pay all costs incurred by the other party as a result of said default, including reasonable attorneys’ fees, whether incurred through initiation of legal proceedings or otherwise.

25. **Time of the Essence**.

It is understood that time is of the essence of this Agreement.

26. **Conflicts**.

If there is a conflict between any amendments hereto executed by Seller and Purchaser and the provisions of this Agreement, such executed amendments shall govern.

27. **Severability**.

The provisions hereof shall be deemed independent and severable, and the invalidity or partial invalidity or unenforceability of any one provision or portion hereof shall not affect the validity or enforceability of any other provision hereof.

28. **Exhibits**.

The Exhibits are considered an integral part of this Agreement and are hereby incorporated herein, and this Agreement shall not be considered executed and/or complete until and unless they shall be attached hereto and initialed by all parties hereto.

29. **Legal Representation**.

This Agreement is the result of negotiations by and between the parties hereto and said parties covenant that both have had the opportunity to consult with legal representation in the preparation of this Agreement. Therefore, this Agreement should not be construed against either party as draftsperson.

30. **Brokers**.

Except as set forth in Section 1.13 above, Seller represents and warrants to Purchaser that Seller has had no dealings with any real estate brokers or agents, or finders, in connection with the negotiation of this Agreement. Seller shall indemnify, defend and hold harmless Purchaser from all claims, liabilities, losses, damages, costs or expenses (including, without limitation, attorneys' fees) for any other broker's commission or finder’s fee asserted as a result of Seller’s act or omission in connection with this transaction. Except as set forth in Section 1.13 above, Purchaser represents and warrants to Seller that Purchaser has had no dealings with any real estate brokers or agents, or finders, in connection with the negotiation of this Agreement. Purchaser shall indemnify, defend and hold harmless Seller from all claims, liabilities, losses, damages, costs or expenses (including, without limitation, attorneys' fees) for any other broker's commission or finder's fee asserted as a result of Purchaser's act or omission in connection with this transaction. This Section 30 shall survive the Closing.

31. **Further Assurances.**

Each party shall, from time to time, execute and deliver such further instruments as the other party or its counsel may reasonably request to effectuate the intent of this Agreement, including, but not limited to, documents necessary for compliance with the laws, ordinances, rules or regulations of any applicable governmental authorities.

32. **Reporting Person.**

The Title Insurance Company is hereby designated as the Reporting Person (as defined in Section 6045(e) of the Code and the regulations promulgated thereunder) as permitted by Treasury Regulation Section 1.6045-5(E)(5).

33. **No Third-Party Beneficiaries.**

This Agreement is intended for the exclusive benefit of Seller and Purchaser and their respective permitted assigns and is not intended and shall not be construed as conferring any benefit on any third party or the general public.

34. **No Recording.**

Purchaser shall not record this Agreement or any reference hereto in the public records of the jurisdiction in which the Property is located.

35. **Tax Deferred Exchange**.

Each of Seller and Purchaser hereby agrees to assist the other if either Seller or Purchaser elects to effect a tax deferred Section 1031 exchange as part of this transaction, provided that the assisting party shall incur no additional cost, obligation, duty or liability in conjunction therewith. Each party agrees to execute documents reasonably required by the other in connection with such exchange, subject to the conditions set forth above. In the event an assisting party does incur any material costs or expenses in connection with the exchange, the other party agrees to indemnify and hold harmless the assisting party for all such costs and expenses, including, but not limited to, reasonable attorneys' fees.

36. **Intentionally Omitted** .

37. **Intentionally Omitted**.

38. **Confidential Material**.

By executing this Agreement, Purchaser and Seller agree to keep the material economic terms and conditions of this Agreement (the "Confidential Material) completely confidential; provided that the parties may reveal such information regarding the terms and provisions of this Agreement as may be necessary in their reasonable discretion to comply with the provisions of this Agreement, the reasonable operation and conduct of their respective businesses, or any provision of any law, ordinance or governmental regulation. The parties shall hold the Confidential Material provided by the other party in strictest confidence. Neither party will disclose any of the Confidential Material in any manner whatsoever; provided, however, that the Confidential Material may be disclosed to those individuals ("Permitted Parties") who need to know such information for the purposes of evaluating the Property/this transaction, including, without limitation, lenders, attorneys, accountants, clients, agents or representatives, and representatives of lenders (the "Permitted Parties"). Such Permitted Parties shall be informed by a party of the confidential nature of the Confidential Material and shall be directed by us to treat such information with strict confidence. Each party shall be responsible for any breach of this Agreement by any of their Permitted Parties and agree to take all reasonable measures, at its sole cost and expense, to restrain the Permitted Parties from prohibited or unauthorized disclosure or use of the Confidential Material.

39. **Force Majeure Delays**.

If the performance of an obligation hereunder or under any other agreement or declaration, other than the payment of money, is expressly subject to the effect of Force Majeure Delay, then, unless otherwise provided herein or in such other agreement or declaration to the contrary, the effect of a Force Majeure Delay shall be to extend the time for performance of such obligation for the reasonable period of such Force Majeure Delay, but in no event greater than the period of the Force Majeure Delay. "Force Majeure Delay": shall mean delays caused by occurrences beyond the reasonable control and without the fault, negligence or financial inability of a party hereto or its contractors, including, without limitation, strikes, labor disputes, utility shortages or moratoria, fire, earthquake, floods and other out of the ordinary actions of the elements, enemy invasion, wars, terrorism, insurrection, sabotage, laws, orders or actions of governmental, civil or military authorities, governmental restrictions, riot, civil commotion, terrorist activities, judicial or administrative proceedings commenced by persons not a party to this Agreement and unavoidable casualty.

40. **Calculation of Days**.

The provisions of this Agreement relative to number of days shall be deemed to refer to calendar days, unless otherwise specified. If the date of performance or the last day for performance of an obligation under this Agreement occurs on a calendar day which is a Saturday, Sunday, or a day which is, in the city and state in which Escrow Agent or the Property is located, either a legal holiday or a day on which banking institutions are authorized by law to remain closed for the entire day, then performance of such obligation shall be extended to the next calendar day which is not one of such days.

41. **WAIVER OF JURY TRIAL** .

AS A MATERIAL PART OF THE CONSIDERATION FOR THIS AGREEMENT, SELLER AND PURCHASER EACH WAIVES ALL RIGHTS TO TRIAL BY JURY IF LITIGATION ARISES IN CONNECTION WITH THIS AGREEMENT.

THE SUBMISSION OF THIS AGREEMENT FOR EXAMINATION IS NOT INTENDED TO NOR SHALL CONSITUTE AN OFFER TO SELL, OR A RESERVATION OF, OR OPTION OR PROPOSAL OF ANY KIND FOR THE PURCHASE OF THE PROPERTY. IN NO EVENT SHALL ANY DRAFT OF THIS AGREEMENT CREATE ANY OBLIGATION OR LIABILITY, IT BEING UNDERSTOOD THAT THIS AGREEMENT SHALL BE EFFECTIVE AND BINDING ONLY WHEN A COUNTERPART HEREOF HAS BEEN EXECUTED AND DELIVERED BY EACH PARTY HERETO TO THE OTHER.

[Signatures on following page]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day, month and year first written above.

SELLER:

BELTWAY BUSINESS PARK, L.L.C.,
a Nevada limited liability company

By: MAJESTIC BELTWAY, LLC,
a Nevada limited liability company,
its Manager

By: MAJESTIC REALTY CO.,
a California corporation,
its Manager

By: /s/ Edward P. Roski, Jr.

Name: Edward P. Roski, Jr.

Its: President and Chairman of the Board

By: THOMAS & MACK BELTWAY, L.L.C.,
a Nevada limited liability company,
its Manager

By: /s/ Thomas A. Thomas
Thomas A. Thomas, Manager

PURCHASER:

NV LAS DEC, LLC
a Nevada limited liability company

By: Switch, Ltd., its Manager

By: /s/ Thomas Morton

Name: Thomas Morton

Its: President

ACCEPTANCE BY ESCROW AGENT

The undersigned hereby agrees to act as escrow agent pursuant to the foregoing Property Purchase Agreement, and hereby accepts the instructions to the escrow agent contained in such purchase agreement. The undersigned has established Escrow No. NCS-969567 pursuant to the terms thereof.

First American Title insurance Company

By: ___________________________
(Signature)

Name: _________________________
Title:___________________________
Executed on: __________, 2020

EXHIBIT "A"

Property Description

[See Attached]

EXHIBIT A

THE SOUTHEAST QUARTER (SE 1/4) OF THE NORTHEAST QUARTER (NE 1/4) OF THE SOUTHEAST QUARTER (SE 1/4) OF THE NORTHWEST QUARTER (NW 1/4) OF SECTION 1, TOWNSHIP 22, SOUTH, RANGE 60 EAST, M.D.B. & M., CLARK COUNTY, NEVADA.
EXCEPTING THEREFROM THE INTEREST CONVEYED TO THE COUNTY OF CLARK BY DEED RECORDED DECEMBER 30, 1996 IN BOOK 961230 AS DOCUMENT NO. 01930 OF OFFICIAL RECORDS.
FURTHER EXCEPTING THEREFROM THAT PORTION CONVEYED TO COUNTY OF CLARK BY GRANT, BARGAIN, SALE AND DEDICATION DEED RECORDED DECEMBER 19, 2014 IN BOOK 20141219 AS INSTRUMENT NO. 01050 OF OFFICIAL RECORDS.

EXHIBIT "B"

APN No.: _________

RECORDING REQUESTED BY, AND
WHEN RECORDED, RETURN TO:

____
____
____

(Space above line for Recorder's use only)

GRANT BARGAIN AND SALE DEED

______________________________ ("Grantor"), in consideration of the sum of TEN DOLLARS ($10.00) and other good and valuable consideration, the receipt of which is hereby acknowledged, does hereby Grant, Bargain, Sell and Convey to ____________________, a __________, ("Grantee") all right, title and interest in, to and under the tracts, pieces or parcels of real property situated in the County of Clark, State of Nevada, more particularly described in Attachment A attached hereto and incorporated herein by reference, together with all improvements thereon and all and singular the tenements, hereditaments and appurtenances thereunto belonging or in any way appertaining (collectively the "Property").

SUBJECT TO all real estate taxes not yet delinquent; covenants, conditions, restrictions, easements, rights of way and other matters of record; applicable laws, ordinances, statutes, orders, requirements and regulations to which the Property is subject, including, without limitation, all building, zoning and environmental laws and requirements; and any state of facts which a new or updated survey or physical inspection of the Property might disclose.

Dated as of the ________ day of _________________, 20__.

[Signatures on Following Page]

______________________________,
a Nevada limited liability company

By:____________________________

Title:____________________________

STATE OF NEVADA)
)
COUNTY OF CLARK)

This instrument was acknowledged before me on ___________________, 20__, by __________ __________________________ of ___________________________, a Nevada limited liability company.

____
(Signature of notary officer)

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Section 3: EX-31.1 (EXHIBIT 31.1)

Exhibit 31.1

CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rob Roy, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Switch, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 11, 2020

By: /s/ Rob Roy

Rob Roy
Chief Executive Officer
Principal Executive Officer

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Section 4: EX-31.2 (EXHIBIT 31.2)

Exhibit 31.2

CERTIFICATION BY THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gabe Nacht, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Switch, Inc.

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting, which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: May 11, 2020

By: /s/ Gabe Nacht

Gabe Nacht
Chief Financial Officer
Principal Financial Officer

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Section 5: EX-32.1 (EXHIBIT 32.1)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Switch, Inc. (the "Company") for the period ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Rob Roy, Chief Executive Officer, and Gabe Nacht, Chief Financial Officer, of the Company, do each certify, pursuant to Section 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all materials respects, the financial condition and results of operations of the Company.

Date: May 11, 2020

By: /s/ Rob Roy

Rob Roy
Chief Executive Officer
Principal Executive Officer

By: /s/ Gabe Nacht

Gabe Nacht
Chief Financial Officer
Principal Financial Officer

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