

EQUINIX INC  
Form 10-Q  
November 02, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2007

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-31293

**EQUINIX, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State of incorporation)

**77-0487526**  
(I.R.S. Employer Identification No.)

**301 Velocity Way, Fifth Floor, Foster City, California 94404**

(Address of principal executive offices, including ZIP code)

**(650) 513-7000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares outstanding of the registrant's Common Stock as of September 30, 2007 was 36,293,262.

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

	September 30, 2007 (unaudited)	December 31, 2006
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 343,452	\$ 82,563
Short-term investments	64,005	48,831
Accounts receivable, net	49,176	26,864
Prepays and other current assets	26,489	8,003
<b>Total current assets</b>	<b>483,122</b>	<b>166,261</b>
Long-term investments	28,905	25,087
Property and equipment, net	1,069,080	546,395
Goodwill	430,277	16,919
Intangible assets, net	70,191	522
Debt issuance costs, net	22,474	3,006
Other assets	26,517	13,642
<b>Total assets</b>	<b>\$ 2,130,566</b>	<b>\$ 771,832</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 94,339	\$ 27,269
Accrued property and equipment	60,469	23,337
Current portion of accrued restructuring charges	14,142	13,469
Current portion of capital lease and other financing obligations	3,765	1,977
Current portion of mortgage and loans payable	3,162	2,150
Other current liabilities	22,142	10,151
<b>Total current liabilities</b>	<b>198,019</b>	<b>78,353</b>
Accrued restructuring charges, less current portion	19,671	28,103
Capital lease and other financing obligations, less current portion	94,501	92,722
Mortgage and loans payable, less current portion	278,946	96,746
Convertible debt	678,236	86,250
Deferred rent and other liabilities	46,516	34,630
<b>Total liabilities</b>	<b>1,315,889</b>	<b>416,804</b>
Stockholders equity:		
Common stock	36	29
Additional paid-in capital	1,356,427	904,573

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Accumulated other comprehensive income	10,773	3,870
Accumulated deficit	(552,559)	(553,444)
<b>Total stockholders' equity</b>	<b>814,677</b>	<b>355,028</b>
Total liabilities and stockholders' equity	\$ 2,130,566	\$ 771,832

See accompanying notes to condensed consolidated financial statements

**Table of Contents****EQUINIX, INC.****Condensed Consolidated Statements of Operations****(in thousands, except per share data)**

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
	(unaudited)			
Revenues	\$ 103,782	\$ 73,726	\$ 280,728	\$ 207,143
Costs and operating expenses:				
Cost of revenues	62,891	49,137	171,265	138,045
Sales and marketing	9,630	7,502	27,602	23,180
General and administrative	25,182	18,631	72,122	53,486
Restructuring charges		1,527	407	1,527
Total costs and operating expenses	97,703	76,797	271,396	216,238
Income (loss) from operations	6,079	(3,071)	9,332	(9,095)
Interest income	3,309	1,724	10,340	5,065
Interest expense	(5,662)	(3,604)	(15,240)	(10,820)
Other income (expense)	3,167	53	3,168	(164)
Loss on conversion and extinguishment of debt	(2,554)		(5,949)	
Income (loss) before income taxes and cumulative effect of a change in accounting principle	4,339	(4,898)	1,651	(15,014)
Income taxes	(215)	(270)	(766)	(870)
Net income (loss) before cumulative effect of a change in accounting principle	4,124	(5,168)	885	(15,884)
Cumulative effect of a change in accounting principle for stock-based compensation (net of income taxes of \$0)				376
Net income (loss)	\$ 4,124	\$ (5,168)	\$ 885	\$ (15,508)
Basic net income (loss) per share:				
Net income (loss) per share before cumulative effect of a change in accounting principle	\$ 0.13	\$ (0.18)	\$ 0.03	\$ (0.56)
Cumulative effect of a change in accounting principle				0.01
Net income (loss) per share	\$ 0.13	\$ (0.18)	\$ 0.03	\$ (0.55)
Weighted-average shares	31,683	28,743	30,845	28,356
Diluted net income (loss) per share:				
Net income (loss) per share before cumulative effect of a change in accounting principle	\$ 0.12	\$ (0.18)	\$ 0.03	\$ (0.56)
Cumulative effect of a change in accounting principle				0.01
Net income (loss) per share	\$ 0.12	\$ (0.18)	\$ 0.03	\$ (0.55)
Weighted-average shares	33,112	28,743	32,339	28,356

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See accompanying notes to condensed consolidated financial statements

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

	<b>Nine months ended</b>	
	<b>September 30,</b>	<b>2006</b>
	<b>2007</b>	<b>(unaudited)</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 885	\$ (15,508)
<b>Adjustments to reconcile net (income) loss to net cash provided by operating activities:</b>		
Depreciation	64,495	52,200
Stock-based compensation	31,032	23,540
Restructuring charge	407	1,527
Accretion of asset retirement obligation and accrued restructuring charges	2,373	2,795
Amortization of intangible assets and non-cash prepaid rent	689	833
Amortization of debt issuance costs	1,985	643
Cumulative effect of a change in accounting principle		(376)
Gain on foreign currency hedge	(1,494)	
Other	(1,152)	22
<b>Changes in operating assets and liabilities, net of effect of acquisition:</b>		
Accounts receivable	(7,068)	(6,908)
Prepays and other assets	(1,825)	(2,305)
Accounts payable and accrued expenses	23,079	470
Accrued restructuring charges	(10,100)	(9,213)
Other liabilities	2,833	1,833
<b>Net cash provided by operating activities</b>	<b>106,139</b>	<b>49,553</b>
<b>Cash flows from investing activities:</b>		
Purchases of investments	(89,476)	(68,619)
Maturities and sales of investments	71,521	56,789
Purchases of San Jose IBX properties	(71,471)	
Purchase of Los Angeles IBX property	(49,059)	
Purchase of IXEurope, net of cash acquired	(541,729)	
Purchase of Chicago IBX property		(9,766)
Purchases of other property and equipment	(295,809)	(102,904)
Accrued property and equipment	23,940	2,814
Other investing activities	877	8
<b>Net cash used in investing activities</b>	<b>(951,206)</b>	<b>(121,678)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from exercise of stock options and employee stock purchase plans	27,568	28,756
Proceeds from issuance of common stock	339,946	
Proceeds from convertible subordinated notes	645,986	
Proceeds from loans payable	118,754	
Proceeds from borrowings from credit line		40,000
Repayment of borrowings from credit line		(30,000)
Repayment of capital lease and other financing obligations	(1,445)	(1,130)
Repayment of mortgage payable	(1,573)	(835)



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Debt issuance costs	(22,224)	(253)
Other financing activities		814
Net cash provided by (used in) financing activities	1,107,012	37,352
Effect of foreign currency exchange rates on cash and cash equivalents	(1,056)	145
Net increase (decrease) in cash and cash equivalents	260,889	(34,628)
Cash and cash equivalents at beginning of period	82,563	119,267
Cash and cash equivalents at end of period	\$ 343,452	\$ 84,639
Supplemental cash flow information:		
Cash paid for taxes	\$ 240	\$ 545
Cash paid for interest	\$ 16,130	\$ 11,352

See accompanying notes to condensed consolidated financial statements

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**EQUINIX, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. Basis of Presentation and Significant Accounting Policies**

The accompanying unaudited condensed consolidated financial statements have been prepared by Equinix, Inc. ( Equinix or the Company ) and reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state the financial position and the results of operations for the interim periods presented. The balance sheet at December 31, 2006 has been derived from audited financial statements at that date. The financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission ( SEC ), but omit certain information and footnote disclosure necessary to present the statements in accordance with generally accepted accounting principles. For further information, refer to the Consolidated Financial Statements and Notes thereto included in Equinix's Form 10-K as filed with the SEC on February 28, 2007. Results for the interim periods are not necessarily indicative of results for the entire fiscal year.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles 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 condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Certain amounts in the accompanying condensed consolidated financial statements have been reclassified to conform to the condensed consolidated financial statement presentation as of and for the three months ended September 30, 2007.

On September 14, 2007, a wholly-owned subsidiary of the Company purchased the entire issued and to be issued share capital of IXEurope plc ( IXEurope ), a publicly-held company headquartered in London, U.K. (the IXEurope Acquisition ) (see Note 2). Under the final terms of the IXEurope Acquisition, IXEurope shareholders received 140 British pence in cash for each IXEurope share. The purchase price, including direct transaction costs, totaled 271,113,000 British pounds or \$549,154,000. IXEurope, a similar business to that of the Company, operates data centers in the United Kingdom, France, Germany and Switzerland and provides the Company with an immediate entry into the European data center market, supplementing the Company's existing U.S. and Asia-Pacific operations. The condensed consolidated financial statements of the Company include the operations of IXEurope from September 14, 2007 to September 30, 2007 and reflect the net assets acquired. In September 2007, the Company completed the sale of 4,211,939 shares of its common stock resulting in net proceeds of \$339,946,000 and the sale of its 3.00% Convertible Subordinated Notes resulting in gross proceeds of \$395,986,000 (see Note 11) primarily to fund the IXEurope Acquisition.

***Consolidation and Foreign Currency Transactions***

The accompanying unaudited condensed consolidated financial statements include the accounts of Equinix and its subsidiaries, including the operations of IXEurope from September 14, 2007 to September 30, 2007. All significant intercompany accounts and transactions have been eliminated in consolidation. Foreign exchange gains or losses resulting from foreign currency transactions, including intercompany foreign currency transactions that are anticipated to be repaid within the foreseeable future, are reported within other income (expense) on the Company's accompanying statements of operations.

In September 2007, a dormant subsidiary of the Company in the Netherlands was substantially liquidated. As a result, the historical foreign exchange gain of \$621,000 accumulated within other comprehensive income associated with this dormant subsidiary was recognized in the Company's results of operations for the three and nine months ended September 30, 2007 within other income (expense).

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Revenue Recognition and Allowance for Doubtful Accounts***

Equinix derives more than 90% of its revenues from recurring revenue streams, consisting primarily of (1) colocation services, such as from the licensing of cabinet space and power; (2) interconnection services, such as cross connects and Equinix Exchange ports; (3) managed infrastructure services, such as Equinix Direct, bandwidth, mail service and managed platform solutions and (4) other services consisting of rent from non-IBX space. The remainder of the Company's revenues are from non-recurring revenue streams, such as from the recognized portion of deferred installation revenues, professional services, contract settlements and equipment sales. Revenues from recurring revenue streams are billed monthly and recognized ratably over the term of the contract, generally one to three years for IBX space customers. Non-recurring installation fees, although generally paid in a lump sum upon installation, are deferred and recognized ratably over the longer of the term of the related contract or expected life of the installation. Professional service fees are recognized in the period in which the services were provided and represent the culmination of the earnings process as long as they meet the criteria for separate recognition under EITF Abstract No. 00-21,

**Revenue Arrangements with Multiple Deliverables.** Revenue from bandwidth and equipment is recognized on a gross basis in accordance with EITF Abstract No. 99-19, **Recording Revenue as a Principal versus Net as an Agent**, primarily because the Company acts as the principal in the transaction, takes title to products and services and bears inventory and credit risk. To the extent the Company does not meet the criteria for gross basis accounting for bandwidth and equipment revenue, the Company records the revenue on a net basis. Revenue from contract settlements, when a customer wishes to terminate their contract early, is generally recognized on a cash basis when no remaining performance obligations exist to the extent that the revenue has not previously been recognized.

The Company occasionally guarantees certain service levels, such as uptime, as outlined in individual customer contracts. To the extent that these service levels are not achieved, the Company reduces revenue for any credits given to the customer as a result. The Company generally has the ability to determine such service level credits prior to the associated revenue being recognized, and historically, these credits have generally not been significant. There were no significant service level credits recorded during the three and nine months ended September 30, 2007 and 2006.

Revenue is recognized only when the service has been provided and when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is reasonably assured. It is customary business practice to obtain a signed master sales agreement and sales order prior to recognizing revenue in an arrangement. Taxes collected from customers and remitted to governmental authorities are reported on a net basis and excluded from revenue.

The Company assesses collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. The Company generally does not request collateral from its customers although in certain cases the Company obtains a security interest in a customer's equipment placed in its IBX centers or obtains a deposit. If the Company determines that collection of a fee is not reasonably assured, the Company defers the fee and recognizes revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash. In addition, Equinix also maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments for which the Company had expected to collect the revenues. If the financial condition of Equinix's customers were to deteriorate or if they became insolvent, resulting in an impairment of their ability to make payments, greater allowances for doubtful accounts may be required. Management specifically analyzes accounts receivable and current economic news and trends, historical bad debts, customer concentrations, customer credit-worthiness and changes in customer payment terms when evaluating revenue recognition and the adequacy of the Company's reserves. A specific bad debt reserve of up to the full amount of a particular invoice value is provided for certain problematic customer balances. An additional reserve is established for all other accounts based on the age of the invoices and an analysis of historical credits issued. Delinquent account balances are written-off after management has determined that the likelihood of collection is not probable.

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company recorded a net adjustment of \$775,000 to its U.S. recurring revenues as a result of the correction of billing errors attributable to prior periods, the net impact of which increased the Company's U.S. recurring revenues during the three months ended June 30, 2007. The Company concluded that the cumulative credit to recurring revenues, totaling \$775,000, was not material to any previously-reported historical period and expected results of operations for the current fiscal year. As such, this cumulative credit was recorded during the quarter ended June 30, 2007 and is included in the statement of operations for the nine months ended September 30, 2007.

**Net Income (Loss) per Share**

The Company computes net income (loss) per share in accordance with SFAS No. 128, Earnings per Share; SEC Staff Accounting Bulletin (SAB) No. 98; EITF Issue 03-6, Participating Securities and the Two-Class Method Under FASB 128; EITF Issue 04-8 The Effect of Contingently Convertible Instruments on Diluted Earnings per Share and SFAS No. 123(R), Share-Based Payment. Basic net income (loss) per share is computed using net income (loss) and the weighted-average number of common shares outstanding. Diluted net income (loss) per share is computed using net income (loss), adjusted for interest expense as a result of the assumed conversion of the Company's Convertible Subordinated Debentures, 2.50% Convertible Subordinated Notes and 3.00% Convertible Subordinated Notes, if dilutive, and the weighted-average number of common shares outstanding plus any dilutive potential common shares outstanding. Dilutive potential common shares include the assumed exercise, vesting and issuance activity of employee equity awards using the treasury stock method, as well as warrants and shares issuable upon the conversion of the Convertible Subordinated Debentures, 2.50% Convertible Subordinated Notes and 3.00% Convertible Subordinated Notes.

The following table sets forth the computation of basic and diluted net income (loss) per share for the periods presented (in thousands, except per share amounts) (unaudited):

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
<b>Numerator:</b>				
Numerator for basic net income (loss) per share	\$ 4,124	\$ (5,168)	\$ 885	\$ (15,508)
<b>Effect of assumed conversion of convertible debt:</b>				
Interest expense, net of tax				
Numerator for diluted net income (loss) per share	\$ 4,124	\$ (5,168)	\$ 885	\$ (15,508)
<b>Denominator:</b>				
Weighted-average shares	32,142	28,991	31,305	28,606
Weighted-average unvested restricted shares issued subject to forfeiture	(459)	(248)	(460)	(250)
Denominator for basic net income (loss) per share	31,683	28,743	30,845	28,356
<b>Effect of dilutive securities:</b>				
Convertible subordinated debentures				
2.50% convertible subordinated notes				
3.00% convertible subordinated notes				
Employee equity awards	1,429		1,494	
Warrants				

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Total dilutive potential shares	1,429		1,494	
Denominator for diluted net income (loss) per share	33,112	28,743	32,339	28,356
Net income (loss) per share:				
Basic	\$ 0.13	\$ (0.18)	\$ 0.03	\$ (0.55)
Diluted	\$ 0.12	\$ (0.18)	\$ 0.03	\$ (0.55)

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	Nine months ended			
	Three months ended		September 30,	
	September 30, 2007	2006	2007	2006
Shares reserved for conversion of convertible subordinated debentures	816,457	2,183,548	816,457	2,183,548
Shares reserved for conversion of 2.50% convertible subordinated notes	2,231,475		2,231,475	
Shares reserved for conversion of 3.00% convertible subordinated notes	2,944,551		2,944,551	
Unvested restricted shares issued subject to forfeiture		247,750		247,750
Common stock warrants	1,034	9,490	1,034	9,490
Common stock related to employee equity awards	1,065,073	3,935,819	1,093,041	3,935,819

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected more likely than not to be realized in the future.

The IXEurope Acquisition did not result in a significant impact to the Company's tax accounting. The condensed consolidated financial statements include acquired deferred tax assets of \$1,188,000 attributable to the operations in Switzerland. The deferred tax assets in all the jurisdictions other than Switzerland had been fully reserved by IXEurope prior to the IXEurope Acquisition.

The Company will continue to provide a valuation allowance for the net deferred tax assets, other than the deferred tax assets associated with its Singapore and Switzerland subsidiaries, until it becomes more likely than not that the net deferred tax assets will be realizable. The Company released the tax valuation allowance on the Company's Singaporean net deferred tax assets during the year ended December 31, 2006; the Company also recorded additional deferred tax assets attributable to Switzerland upon closing the IXEurope Acquisition. For the three and nine months ended September 30, 2007, the Company recorded a tax provision of \$215,000 and \$766,000, respectively. For the three and nine months ended September 30, 2006, the Company recorded a tax provision of \$270,000 and \$870,000, respectively. The tax provision recorded in the periods ended September 30, 2007 was attributable to the Company's foreign operations. The tax provision recorded in the periods ended September 30, 2006 is primarily related to federal alternative minimum tax, which was attributable to the Company's domestic operations. The Company did not record any excess tax benefit associated with the stock options exercised by employees during the three and nine months ended September 30, 2007. For the nine months ended September 30, 2006, the Company recorded \$825,000 of excess tax benefit associated with the stock options exercised by employees during the period.

In January 2007, the Company adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in the condensed consolidated financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 resulted in no cumulative effect of a change in accounting principle being recorded on the Company's condensed consolidated financial statements during the three and nine months ended September 30, 2007.

As of the date of adopting FIN 48, the Company had approximately \$1,883,000 of unrecognized tax benefits including \$138,000 of interest primarily related to tax positions claiming refundable research credits in the State of Hawaii. The Company has filed an appeal in the Tax Court in Hawaii and is currently working to settle the claim. As of September 30, 2007, the Company believed that the appeal filed in the Tax Court in Hawaii would possibly be settled within the next nine months. However, the Company cannot estimate the range of any settlement. Subsequent to the adoption of FIN 48, the Company recorded additional unrecognized tax benefits of \$206,000 attributable to certain expenditures included in the Singaporean net operating loss carry-forward as it is probable that the inclusion of those expenditures in the Singaporean net operating loss carry-forward would be denied by the local tax authority. As a result, the total unrecognized tax benefits were \$2,303,000 as of September 30, 2007. A majority of the unrecognized tax benefits, if subsequently recognized, will affect the Company's effective tax rate at the time of recognition. The Company will continue to classify the interest and penalties recognized in accordance with paragraphs 15 and 16, respectively, of FIN 48 in the financial statements as income tax. The Company's income tax returns for all tax years remain open to examination by federal and state taxing authorities due to the Company's Net Operating Loss (NOL) carry-forward. In addition, the Company's tax years of 2001 through 2005 also remain open and subject to examination by local tax authorities in the foreign jurisdictions in which the Company has major operations.

The Internal Revenue Service completed the examination of the Company's income tax return for fiscal year 2003 during the three months ended June 30, 2007, which did not result in any impact to the Company's tax liabilities and financial statements.

***Construction in Progress***

Construction in progress includes direct and indirect expenditures for the construction and expansion of IBX centers and is stated at original cost. The Company has contracted out substantially all of the construction and expansion efforts of its IBX centers to independent contractors under construction contracts. Construction in progress includes certain costs incurred under a construction contract including project management services, engineering and schematic design services, design development and construction services and other construction-related fees and services. In addition, the Company has capitalized certain interest costs during the construction phase. Once an IBX center or expansion project becomes operational, these capitalized costs are allocated to certain property and equipment categories and are depreciated at the appropriate rates consistent with the estimated useful life of the underlying assets.

Interest incurred is capitalized in accordance with SFAS No. 34, Capitalization of Interest Costs. Total interest cost incurred and total interest capitalized during the three months ended September 30, 2007 were \$8,636,000 and \$2,974,000, respectively. Total interest cost incurred and total interest capitalized during the nine months ended September 30, 2007 were \$21,360,000 and \$6,120,000, respectively. Total interest cost incurred and total interest capitalized during the three months ended September 30, 2006 were \$3,958,000 and \$354,000, respectively. Total interest cost incurred and total interest capitalized during the nine months ended September 30, 2006 were \$11,862,000 and \$1,042,000, respectively.

The Company recorded a net adjustment of \$491,000 to its capitalized interest as a result of the inclusion of certain fixed assets under construction attributable to prior periods, the net impact of which decreased the Company's interest expense during the three months ended September 30, 2007. The Company concluded that the cumulative amount, totaling \$491,000, was not material to any previously-reported historical period and expected results of operations for the current fiscal year. As such, this capitalized interest was recorded during the quarter ended September 30, 2007 and is included in the statement of operations for the nine months ended September 30, 2007.

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Asset Retirement Obligations***

The fair value of a liability for an asset retirement obligation is to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized and included as part of the carrying value of the long-lived asset and amortized over the useful life of the asset. Subsequent to the initial measurement, the Company is accreting the liability in relation to the asset retirement obligations over time and the accretion expense is being recorded as a cost of revenue. The Company's asset retirement obligations are primarily related to its IBX Centers, of which the majority are leased under long-term arrangements, and, in certain cases, are required to be returned to the landlords in original condition. All of the Company's leased IBX centers have been subject to significant development by the Company in order to convert them from, in most cases, vacant buildings or warehouses into IBX centers. The majority of the Company's leased IBX centers' initial lease terms expire at various dates ranging from 2010 to 2027 and all of them have renewal options available to the Company.

During the three and nine months ended September 30, 2007, the Company recorded accretion expense related to its asset retirement obligations of \$150,000 and \$439,000, respectively. During the three and nine months ended September 30, 2006, the Company recorded accretion expense related to its asset retirement obligations of \$138,000 and \$394,000, respectively.

***Stock-Based Compensation***

On January 1, 2006, the Company adopted the provisions of, and accounts for stock-based compensation in accordance with, SFAS No. 123(R), Share-Based Payment, and related pronouncements ( SFAS 123(R) ). Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date for all stock-based awards made to employees and directors based on the fair value of the award using an option-pricing model and is recognized as expense over the requisite service period, which is generally the vesting period. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, ( APB 25 ) for periods beginning in fiscal year 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ( SAB 107 ) providing supplemental implementation guidance for SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

The Company currently uses the Black-Scholes option-pricing model to determine the fair value of stock options and shares purchased under the employee stock purchase plan as they only have a service condition. The Company currently uses a Monte Carlo simulation option-pricing model to determine the fair value of certain restricted stock grants that have both a service and market price condition. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include the Company's expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors.

In January 2007, the Stock Option Committee of the Board of Directors approved stock option grants to employees, excluding executive officers, to purchase an aggregate of 511,310 shares of common stock as part of the Company's annual refresh program. In addition, the Compensation Committee of the Board of Directors approved the issuance of 178,400 restricted stock units to certain employees, excluding executive officers, and an aggregate of 218,000 shares of restricted common stock and restricted stock units to executive officers as part of the annual refresh program. All such grants were made pursuant to the 2000 Equity Incentive Plan. In April 2007, the Compensation Committee of the Board of Directors approved the issuance of 84,000 shares of restricted common stock to the Company's new Chief Executive Officer who joined the Company in April 2007. In September 2007, the Company granted 62,436 restricted stock units to the two top officers of IxEurope, subject to vesting conditions including continuous employment through at least the end of 2008 (see Note 2) and achievement of certain financial performance criteria of the Europe operations. Additionally, the Compensation Committee of the Board of Directors approved the grant of 102,000 restricted stock units to senior management of IxEurope in September 2007 pursuant to the 2000 Equity Incentive Plan. All awards are subject to vesting provisions. All such equity awards described



**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

in this paragraph have a total fair value as of the date of grants, net of estimated forfeitures, of \$63,347,000, which is expected to be amortized over a weighted-average period of 3.3 years. During the three and nine months ended September 30, 2007, the Company had amortized \$4,511,000 and \$12,030,000, respectively, net of estimated forfeitures, of the total fair value of such equity awards.

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

	Three months ended September 30,		Nine months ended September 30,	
	2007	2006	2007	2006
Cost of revenues	\$ 878	\$ 664	\$ 3,019	\$ 2,385
Sales and marketing	2,049	1,623	6,440	5,647
General and administrative	7,562	4,598	21,573	15,508
	\$ 10,489	\$ 6,885	\$ 31,032	\$ 23,540

**Goodwill and Other Intangible Assets**

Goodwill and other intangible assets, net, consisted of the following (in thousands):

	September 30,	December 31,
	2007	2006
Goodwill:		
Singapore	\$ 17,415	\$ 16,919
Europe	412,862	
	430,277	16,919
Other intangibles:		
Intangible asset customer contracts	70,327	4,370
Intangible asset leases	5,337	1,017
Intangible asset tradename	349	339
Intangible asset workforce	160	160
Intangible asset lease expenses	111	111
	76,284	5,997
Accumulated amortization	(6,093)	(5,475)
	70,191	522
	\$ 500,468	\$ 17,441

In September 2007, as a result of the IXEurope Acquisition, the Company recorded goodwill of \$408,812,000 and intangible assets, comprised of customer contracts and leases, of \$70,150,000. The customer contracts intangible asset is being amortized over an estimated useful life of 11 years and the lease intangible asset is being amortized over the remaining lease terms of the associated leases. All of these assets are

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denominated in British pounds and are subject to foreign currency fluctuations. The Company's goodwill from Singapore is an asset denominated in Singapore dollars and is also subject to foreign currency fluctuations. The Company's foreign currency translation gains and losses are a component of other comprehensive income and loss (see Note 15).

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

For the three and nine months ended September 30, 2007, the Company recorded amortization expense of \$423,000 and \$689,000, respectively. For the three and nine months ended September 30, 2006, the Company recorded amortization expense of \$160,000 and \$638,000, respectively. The Company expects to record the following amortization expense during the remainder of 2007 and beyond (in thousands):

<b>Year ending:</b>	
2007 (three months remaining)	\$ 1,636
2008	6,538
2009	6,421
2010	6,387
2011	6,278
2012 and thereafter	42,931
<b>Total</b>	<b>\$ 70,191</b>

***Derivatives and Hedging Activities***

The Company follows SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, which requires the Company to recognize all derivatives on the consolidated balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through the statement of operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. Any ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

In July and August 2007, the Company entered into forward contracts to purchase 265,156,000 British pounds at an average forward rate of 2.020007, or the equivalent of \$535,617,000, for purposes of hedging a portion of the purchase price of the IXEurope Acquisition. Upon cash payment in September 2007, the Company recorded a foreign exchange gain of \$1,494,000, which is reflected within other income (expense) on the Company's statement of operations for the three and nine months ended September 30, 2007.

The Company acquired interest rate swaps in connection with the European Financing (see Note 12). Interest incurred for the European Financing is based on variable interest rates and exposes the Company to interest rate risk. To mitigate the interest rate exposure, IXEurope had entered into two interest rate swap agreements to hedge a portion of the European Financing in order to transfer floating rate exposure to the counterparty in exchange for fixed payments by the Company. Upon the date of the IXEurope Acquisition and through September 30, 2007, these interest rate swaps were considered not to be effective hedges under the provisions of SFAS No. 133. As a result, the change in fair value of these two interest rate swaps totaling a loss of \$24,000 was recorded as an increase in interest expense in the accompanying statements of operations for the three and nine months ended September 30, 2007.

The Company may enter into additional hedging agreements in the future to mitigate its exposure to interest rate or foreign exchange risk.

**2. IXEurope Acquisition**

On September 14, 2007, a wholly-owned subsidiary of the Company purchased the entire issued and to be issued share capital of IXEurope, a publicly-held company headquartered in London, U.K. Under the final terms of the IXEurope Acquisition, IXEurope shareholders received 140 British pence in cash for each IXEurope share. The purchase price, including direct transaction costs, totaled 271,113,000 British pounds or \$549,154,000. IXEurope, a similar business to that of the Company, operates data centers in the United Kingdom, France, Germany and Switzerland and provides the Company with an immediate entry into the European data center market, supplementing the Company's existing U.S. and Asia-Pacific operations. This is the primary reason that contributed to the Company paying significantly more than the carrying amount of IXEurope's historical net book value, resulting in a significant amount of goodwill and intangible assets being recorded by the Company.



**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Fully-diluted shares of IXEurope held by IXEurope's two top officers representing 1,974,000 British pounds of the total purchase price were not paid in cash upon closing. Instead, equity awards of the Company's common stock with a fair value of \$4,007,000 were issued to the two top officers of IXEurope and are subject to vesting based on continuous employment through the end of 2008, as well as certain financial performance criteria of the Europe operations (the IXEurope Equity Compensation). The IXEurope Equity Compensation was not accounted for as part of the purchase price of IXEurope. Rather, the IXEurope Equity Compensation will be expensed into the operations of the Company over the vesting life of such awards.

***Preliminary Purchase Price Allocation***

Under the purchase method of accounting, the total estimated purchase price is preliminarily allocated to IXEurope's net tangible and intangible assets based upon their estimated fair value as of the date of acquisition. Based upon the estimated purchase price and the preliminary valuation, the preliminary purchase price allocation, which is subject to change based on the Company's final analysis, is as follows (in thousands):

Cash and cash equivalents	\$ 7,425
Accounts receivable	15,322
Other current assets	16,611
Property and equipment	168,832
Goodwill	408,812
Intangible asset - customer contracts	65,831
Intangible asset - leases	4,319
Other assets	12,289
<b>Total assets acquired</b>	<b>699,441</b>
Accounts payable and accrued expenses	(44,010)
Accrued property and equipment	(13,192)
Current portion of capital leases	(1,430)
Current portion of loan payable	(826)
Other current liabilities	(8,333)
Capital leases, less current portion	(3,504)
Loan payable	(65,196)
Unfavorable leases	(6,525)
Other liabilities	(7,271)
<b>Net assets acquired</b>	<b>\$ 549,154</b>

A preliminary estimate of \$65,831,000 has been allocated to customer contracts, an intangible asset with an estimated useful life of 11 years. A preliminary estimate of \$4,319,000 has been allocated to favorable leases, an intangible asset with an estimated life of 15.8 years. A preliminary estimate of \$6,525,000 has been allocated to unfavorable leases, a liability with an estimated life of 11.7 years.

A preliminary estimate of \$408,812,000 has been allocated to goodwill. Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. In accordance with SFAS 142, Goodwill and Other Intangible Assets, goodwill will not be amortized and will be tested for impairment at least annually. The preliminary purchase price allocation of IXEurope is subject to revision as more detailed analysis is completed and additional information on the fair values of IXEurope's assets and liabilities becomes available. Any changes in the fair value of the net assets of IXEurope will change the amount of the purchase price allocable to goodwill.

The Company expects to finalize its preliminary purchase price allocation in the fourth quarter of 2007 in conjunction with its year-end reporting.



**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Unaudited Pro forma Consolidated Combined Results***

The condensed consolidated financial statements of the Company include the operations of IXEurope from September 14, 2007 to September 30, 2007 and reflect the net assets acquired. The following unaudited pro forma combined financial information has been prepared to give effect to the IXEurope Acquisition by the Company using the purchase method of accounting and the related financings, the Common Stock Offering and the sale of 3.00% Convertible Subordinated Notes, to fund this acquisition. The unaudited pro forma combined financial information presents the consolidated results of the Company as if the IXEurope Acquisition and the related financings had been completed as of January 1 for both 2006 and 2007. This pro forma financial information is presented for illustrative purposes only and is not necessarily indicative of the results of operations that would have actually been reported had the IXEurope Acquisition and the related financings occurred as of January 1, 2006 or 2007, nor is it necessarily indicative of the future results of operations of the combined company. Unaudited pro forma consolidated combine results of operations for the three and nine months ended September 30, 2007 and 2006 are as follows (in thousands, except per share data):

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenues	\$ 132,272	\$ 90,113	\$ 358,683	\$ 249,726
Net loss	(562)	(12,054)	(15,136)	(38,648)
Basic and diluted net loss per share	\$ (0.02)	\$ (0.37)	\$ (0.43)	\$ (1.19)

**3. IBX Acquisitions and Expansions*****San Jose Property Acquisition***

In January 2007, the Company entered into a conditional purchase agreement to purchase the building and property where its original Silicon Valley IBX center is located (the San Jose Property Acquisition) for \$65,232,000, including closing costs, which was paid in full in a cash transaction during July 2007 following an initial \$6,500,000 cash deposit paid in January 2007. In conjunction with the San Jose Property Acquisition, the Company wrote-off the associated deferred rent and asset retirement obligations totaling \$1,386,000 and \$138,000, respectively, and as a result, recorded property and equipment totaling \$63,708,000. Furthermore, in August 2007, the Company purchased an adjacent piece of land for \$6,239,000, including closing costs, for potential future expansion.

***Singapore IBX Expansion Project***

In March and July 2007, the Company entered into long-term leases for new space in the same building in which the Company's existing Singapore IBX center is located (the Singapore IBX Expansion Project). Minimum payments under four leases, which qualify as operating leases, total 4,973,000 Singapore dollars (approximately \$3,336,000 as translated using effective exchange rates at September 30, 2007) in cumulative lease payments with monthly payments commencing in the third quarter of 2007. The Company is building out this new space in multiple phases. As of September 30, 2007, the Company had incurred approximately \$12,209,000 of capital expenditures to build out this space.

***Washington, D.C. Metro Area IBX Expansion Project***

In March 2007, the Company announced its intention to build out a new IBX center within the Ashburn Campus, which will be the fifth IBX center in the Washington, D.C. metro area, in order to further expand its existing Washington, D.C. metro area IBX center (the Washington, D.C. Metro Area IBX Expansion Project). As of September 30, 2007, the Company had incurred \$9,298,000 of capital expenditures for the Washington, D.C. Metro Area IBX Expansion Project.





**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)*****Los Angeles Metro Area IBX Expansion Project***

In June 2007, the Company purchased a new property, comprised of land and an empty building, located in El Segundo, California, for \$49,059,000, including closing costs, which the Company paid in full in a cash transaction in June 2007. The Company intends to build an IBX center on this property, which will be the Company's fourth IBX center in the Los Angeles metro area (the Los Angeles Metro Area IBX Expansion Project). As of September 30, 2007, the Company had incurred \$1,101,000 of capital expenditures for the Los Angeles Metro Area IBX Expansion Project.

***Silicon Valley Metro Area IBX Expansion Project***

In June 2007, the Company announced its plan to invest further in an existing IBX center in the Silicon Valley metro area (the Silicon Valley Metro Area IBX Expansion Project). The Company intends to expand this IBX center for customer availability during the second quarter of 2008.

**4. Related Party Transactions**

A significant amount of the Company's Asia-Pacific revenues are generated in Singapore and a significant portion of the business in Singapore is transacted with entities affiliated with STT Communications, which is the Company's single largest stockholder (owning approximately 11.8% of outstanding common stock as of September 30, 2007). For the three and nine months ended September 30, 2007, revenues recognized with related parties, primarily entities affiliated with STT Communications, were \$2,345,000 and \$6,322,000, respectively, and as of September 30, 2007, accounts receivable with these related parties was \$1,952,000. For the three and nine months ended September 30, 2007, costs and services procured with related parties, primarily entities affiliated with STT Communications, were \$284,000 and \$921,000, respectively, and as of September 30, 2007, accounts payable with these related parties was \$144,000. For the three and nine months ended September 30, 2006, revenues recognized with related parties, primarily entities affiliated with STT Communications, were \$1,279,000 and \$4,117,000, respectively, and as of September 30, 2006, accounts receivable with these related parties was \$1,062,000. For the three and nine months ended September 30, 2006, costs and services procured with related parties, primarily entities affiliated with STT Communications, were \$864,000 and \$2,883,000, respectively, and as of September 30, 2006, accounts payable with these related parties was \$283,000.

**5. Accounts Receivable**

Accounts receivables, net, consisted of the following (in thousands):

	September 30,	December 31,
	2007	2006
	(unaudited)	
Accounts receivable	\$ 81,760	\$ 52,500
Unearned revenue	(32,199)	(25,363)
Allowance for doubtful accounts	(385)	(273)
	\$ 49,176	\$ 26,864

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Unearned revenue consists of pre-billing for services that have not yet been provided, but which have been billed to customers in advance in accordance with the terms of their contract. Accordingly, the Company invoices its customers at the end of a calendar month for services to be provided the following month.



**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****6. Prepays and Other Current Assets**

Prepays and other current assets consisted of the following (in thousands):

	September 30,	December 31,
	2007 (unaudited)	2006
Taxes receivable	\$ 11,807	\$ 5
Prepaid expenses	10,954	4,467
Other current assets	3,728	3,531
	\$ 26,489	\$ 8,003

**7. Property and Equipment**

Property and equipment consisted of the following (in thousands):

	September 30,	December 31,
	2007 (unaudited)	2006
Leasehold improvements	\$ 392,883	\$ 416,952
IBX plant and machinery	314,209	191,243
Buildings	109,273	50,526
IBX equipment	100,205	84,499
Site improvements	97,713	904
Computer equipment and software	51,662	35,913
Land	50,578	24,967
Furniture and fixtures	6,007	2,438
Construction in progress	364,533	88,429
	1,487,063	895,871
Less accumulated depreciation	(417,983)	(349,476)
	\$ 1,069,080	\$ 546,395

Site improvements are improvements to owned property versus leasehold improvements, which are improvements to leased property. Site improvements are depreciated using the straight-line method over the estimated useful life of the respective asset, generally 10 to 15 years.

Leasehold improvements, IBX plant and machinery, computer equipment and software and buildings recorded under capital leases aggregated \$40,295,000 at September 30, 2007 and \$35,361,000 at December 31, 2006. Amortization on the assets recorded under capital leases is included in depreciation expense and accumulated depreciation on such assets totaled \$6,571,000 and \$4,119,000 as of September 30, 2007 and 2006, respectively.

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As of September 30, 2007 and December 31, 2006, the Company had accrued property and equipment expenditures of \$60,469,000 and \$23,337,000, respectively. The Company's planned capital expenditures during the remainder of 2007 and 2008 in connection with recently acquired IBX properties and expansion efforts are substantial. For further information, refer to "Other Purchase Commitments" in Note 14.

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****8. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consisted of the following (in thousands):

	September 30,	December 31,
	2007 (unaudited)	2006
Accounts payable	\$ 18,992	\$ 4,515
Accrued compensation and benefits	32,674	11,836
Accrued acquisition and financing costs	11,712	
Accrued taxes	10,044	2,081
Accrued utility and security	8,120	3,849
Accrued interest	4,977	1,318
Accrued professional fees	1,518	1,362
Accrued other	6,302	2,308
	\$ 94,339	\$ 27,269

**9. Other Current Liabilities**

Other current liabilities consisted of the following (in thousands):

	September 30,	December 31,
	2007 (unaudited)	2006
Deferred installation revenue	\$ 11,783	\$ 7,838
Deferred recurring revenue	5,425	674
Customer deposits	4,283	799
Deferred rent	403	401
Other current liabilities	248	439
	\$ 22,142	\$ 10,151

**10. Deferred Rent and Other Liabilities**

Deferred rent and other liabilities consisted of the following (in thousands):

September 30,	December 31,
2007	2006

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	(unaudited)	
Deferred rent, non-current	\$ 25,649	\$ 20,522
Deferred installation revenue, non-current	5,922	3,856
Deferred recurring revenue, non-current	5,709	6,058
Asset retirement obligations	4,859	3,985
Other liabilities	4,377	209
	\$ 46,516	\$ 34,630

The Company currently leases the majority of its IBX centers and certain equipment under non-cancelable operating lease agreements expiring through 2027. The IBX centers lease agreements typically provide for base rental rates that increase at defined intervals during the term of the lease. In addition, the Company has negotiated rent expense abatement periods for certain properties to better match the phased build-out of its centers. The Company accounts for such abatements and increasing base rentals using the straight-line method over the life of the lease. The difference between the straight-line expense and the cash payment is recorded as deferred rent.

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****11. Convertible Debt**

The Company's convertible debt consisted of the following (in thousands):

	September 30,	December 31,
	2007 (unaudited)	2006
Convertible subordinated debentures	\$ 32,250	\$ 86,250
2.50% Convertible subordinated notes	250,000	
3.00% Convertible subordinated notes	395,986	
	\$ 678,236	\$ 86,250

***Convertible Subordinated Debentures***

In March 2007, the Company entered into agreements with certain holders ( Holders ) of its 2.5% Convertible Subordinated Debentures due February 15, 2024, pursuant to which the Company agreed to exchange an aggregate of 1,367,090 newly issued shares of its common stock for such Holders' \$54,000,000 of \$86,250,000 principal amount of the Convertible Subordinated Debentures (the Convertible Subordinated Debentures Partial Conversion ). The number of shares of common stock issued equals the amount issuable upon conversion of the Convertible Subordinated Debentures in accordance with their terms. In addition, each Holder received cash consideration equal to accrued and unpaid interest through the redemption date totaling \$111,000, as well as the present value of future interest due through February 15, 2009 and an incremental fee, totaling \$3,395,000 (the Inducement Fee ).

The Company recognized a loss on debt conversion totaling \$3,395,000 as a result of the Convertible Subordinated Debentures Partial Conversion in accordance with FASB No. 84, Induced Conversions of Convertible Debt , due to the Inducement Fee. As a result of the Convertible Subordinated Debentures Partial Conversion, a total of \$53,229,000 was credited to stockholders' equity during the first quarter of 2007, which was comprised of \$54,000,000 of Convertible Subordinated Debentures, offset by \$771,000 of unamortized debt issuance costs since, at the time of issuance, the Convertible Subordinated Debentures did not contain a beneficial conversion feature. As of September 30, 2007, debt issuance costs related to the Convertible Subordinated Debentures, net of amortization, were \$330,000 and are being amortized to interest expense using the effective interest method through February 15, 2009.

As of September 30, 2007, a total of \$32,250,000 Convertible Subordinated Debentures remained outstanding and were convertible into 816,457 shares of the Company's common stock.

***2.50% Convertible Subordinated Notes***

In March 2007, the Company issued \$250,000,000 aggregate principal amount of 2.50% Convertible Subordinated Notes due April 15, 2012 (the 2.50% Convertible Subordinated Notes ). Interest is payable semi-annually on April 15 and October 15 of each year, commencing October 15, 2007.

The 2.50% Convertible Subordinated Notes are governed by an Indenture dated as of March 30, 2007, between the Company, as issuer, and U.S. Bank National Association, as trustee (the Indenture ). The Indenture does not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by the Company. The 2.50% Convertible Subordinated Notes are unsecured and rank junior in right of payment to the Company's existing or future senior debt and equal in right of payment to the Company's existing and future subordinated debt.

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Upon conversion, holders will receive, at the Company's election, cash, shares of the Company's common stock or a combination of cash and shares of the Company's common stock. However, the Company may at any time irrevocably elect for the remaining term of the 2.50% Convertible Subordinated Notes to satisfy its obligation in cash up to 100% of the principal amount of the 2.50% Convertible Subordinated Notes converted, with any remaining amount to be satisfied, at the Company's election, in shares of its common stock or a combination of cash and shares of its common stock.



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**EQUINIX, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The initial conversion rate is 8.9259 shares of common stock per \$1,000 principal amount of 2.50% Convertible Subordinated Notes, subject to adjustment. This represents an initial conversion price of approximately \$112.03 per share of common stock. Holders of the 2.50% Convertible Subordinated Notes may convert their notes at any time prior to the close of business on the business day immediately preceding the maturity date under the following circumstances:

during any fiscal quarter (and only during that fiscal quarter) ending after June 30, 2007, if the sale price of the Company's common stock, for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous fiscal quarter, is greater than 130% of the conversion price per share of common stock on such last trading day, presently \$145.64 per share (the Stock Price Condition Conversion Clause );

subject to certain exceptions, during the five business day period following any ten consecutive trading day period in which the trading price of the 2.50% Convertible Subordinated Notes for each day of such period was less than 98% of the product of the sale price of the Company's common stock and the conversion rate (the Parity Provision Clause );

if such Convertible Subordinated Notes have been called for redemption;

upon the occurrence of specified corporate transactions described in the Indenture, such as a consolidation, merger or binding share exchange in which the Company's common stock would be converted into cash or property other than securities (the Corporate Action Provision Clause ); or

at any time on or after March 15, 2012.

Upon conversion, due to the conversion formulas associated with the 2.50% Convertible Subordinated Notes, if the Company's stock is trading at levels exceeding 130% of the conversion price per share of common stock, and if the Company elects to pay any portion of the consideration in cash, additional consideration beyond the \$250,000,000 of gross proceeds received would be required. However, in no event would the total number of shares issuable upon conversion of the 2.50% Convertible Subordinated Notes exceed 11.6036 per \$1,000 principal amount of Convertible Subordinated Notes, subject to anti-dilution adjustments, or the equivalent of \$86.18 per share of common stock or a total of 2,900,900 shares of the Company's common stock. As of September 30, 2007, the 2.50% Convertible Subordinated Notes were convertible into 2,231,475 shares of the Company's common stock.

The conversion rates may be adjusted upon the occurrence of certain events, including for any cash dividend, but they will not be adjusted for accrued and unpaid interest. Holders of the 2.50% Convertible Subordinated Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than cancelled, extinguished or forfeited. The 2.50% Convertible Subordinated Notes called for redemption may be surrendered for conversion prior to the close of business on the business day immediately preceding the redemption date.

The Company may redeem all or a portion of the 2.50% Convertible Subordinated Notes at any time after April 16, 2010 for cash but only if the closing sale price of the Company's common stock for at least 20 of the 30 consecutive trading days immediately prior to the day the Company gives notice of redemption is greater than 130% of the applicable conversion price per share of common stock on the date of the notice, presently \$145.64 per share. The redemption price will equal 100% of the principal amount of the 2.50% Convertible Subordinated Notes, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.



**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Holders of the 2.50% Convertible Subordinated Notes have the right to require the Company to purchase with cash all or a portion of the 2.50% Convertible Subordinated Notes upon the occurrence of a fundamental change at a purchase price equal to 100% of the principal amount of the 2.50% Convertible Subordinated Notes plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase. Following certain corporate transactions that constitute a change of control, the Company will increase the conversion rate for a holder who elects to convert the 2.50% Convertible Subordinated Notes in connection with such change of control in certain circumstances.

The Company has considered the guidance in FASB No. 133, *Accounting for Derivative Instruments and Hedging Activities*, EITF Abstract No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* and EITF Abstract No. 00-27, *Application of EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, to Certain Convertible Instruments* and other related accounting pronouncements and has determined that the 2.50% Convertible Subordinated Notes do not contain a beneficial conversion feature as the fair value of the Company's common stock on the date of issuance was less than the initial conversion price outlined in the agreement. In addition, the 2.50% Convertible Subordinated Notes contain one embedded derivative requiring bifurcation and separate accounting treatment, the Parity Provision Clause, which had a zero fair value as of September 30, 2007. The Company will be remeasuring this embedded derivative each reporting period, as applicable. Changes in fair value will be reported in the statement of operations.

The costs related to the 2.50% Convertible Subordinated Notes were capitalized and are being amortized to interest expense using the effective interest method, through March 15, 2012, the first date that the holders of the 2.50% Convertible Subordinated Notes can convert without satisfaction of the Stock Price Condition Conversion Clause, Parity Provision Clause or the Corporate Action Provision Clause. Debt issuance costs related to the 2.50% Convertible Subordinated Notes, net of amortization, were \$7,169,000 as of September 30, 2007.

***3.00% Convertible Subordinated Notes***

In September 2007, the Company issued \$395,986,000 aggregate principal amount of 3.00% Convertible Subordinated Notes due October 15, 2014 (the 3.00% Convertible Subordinated Notes). Interest is payable semi-annually on April 15 and October 15 of each year, commencing April 15, 2008.

The 3.00% Convertible Subordinated Notes are governed by an Indenture dated as of September 26, 2007, between the Company, as issuer, and U.S. Bank National Association, as trustee (the Indenture). The Indenture does not contain any financial covenants or any restrictions on the payment of dividends, the incurrence of senior debt or other indebtedness, or the issuance or repurchase of securities by the Company. The 3.00% Convertible Subordinated Notes are unsecured and rank junior in right of payment to the Company's existing or future senior debt and equal in right of payment to the Company's existing and future subordinated debt.

Holders of the 3.00% Convertible Subordinated Notes may convert their notes at their option on any day up to and including the business day immediately preceding the maturity date into shares of the Company's common stock. The base conversion rate is 7.4360 shares of common stock per \$1,000 principal amount of 3.00% Convertible Subordinated Notes, subject to adjustment. This represents a base conversion price of approximately \$134.48 per share of common stock. If, at the time of conversion, the applicable stock price of the Company's common stock exceeds the base conversion price, the conversion rate will be determined pursuant to a formula resulting in the receipt of up to 4.4616 additional shares of common stock per \$1,000 principal amount of the 3.00% Convertible Subordinated Notes, subject to adjustment. However, in no event would the total number of shares issuable upon conversion of the 3.00% Convertible Subordinated Notes exceed 11.8976 per \$1,000 principal amount of 3.00% Convertible Subordinated Notes, subject to anti-dilution adjustments, or the equivalent of \$84.05 per share of the Company's common stock or a total of 4,711,283 shares of the Company's common stock. As of September 30, 2007, the 3.00% Convertible Subordinated Notes were convertible into 2,944,551 shares of the Company's common stock.

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The conversion rates may be adjusted upon the occurrence of certain events, including for any cash dividend, but they will not be adjusted for accrued and unpaid interest. Holders of the 3.00% Convertible Subordinated Notes will not receive any cash payment representing accrued and unpaid interest upon conversion of a note. Accrued but unpaid interest will be deemed to be paid in full upon conversion rather than cancelled, extinguished or forfeited. The Company may not redeem the 3.00% Convertible Subordinated Notes at its option.

Holders of the 3.00% Convertible Subordinated Notes have the right to require the Company to purchase with cash all or a portion of the Convertible Subordinated Notes upon the occurrence of a fundamental change at a purchase price equal to 100% of the principal amount of the 3.00% Convertible Subordinated Notes plus accrued and unpaid interest, if any, to, but excluding, the date of repurchase. Following certain corporate transactions that constitute a change of control, the Company will increase the conversion rate for a holder who elects to convert the 3.00% Convertible Subordinated Notes in connection with such change of control in certain circumstances.

The Company has considered the guidance in FASB No. 133, *Accounting for Derivative Instruments and Hedging Activities*, EITF Abstract No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock* and EITF Abstract No. 00-27, *Application of EITF Issue No. 98-5, Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios, to Certain Convertible Instruments* and other related accounting pronouncements and has determined that the 3.00% Convertible Subordinated Notes do not contain a beneficial conversion feature as the fair value of the Company's common stock on the date of issuance was less than the initial conversion price outlined in the agreement.

The costs related to the 3.00% Convertible Subordinated Notes were capitalized and are being amortized to interest expense using the effective interest method over the seven-year term of the 3.00% Convertible Subordinated Notes. Debt issuance costs related to the 3.00% Convertible Subordinated Notes, net of amortization, were \$10,880,000 as of September 30, 2007.

**12. Non-Convertible Debt**

The Company's non-convertible debt consisted of the following (in thousands):

	September 30,	December 31,
	2007 (unaudited)	2006
Mortgage Payable	\$ 97,322	\$ 98,896
Chicago IBX Financing	93,721	
Asia-Pacific Financing	25,033	
European Financing	66,032	
	\$ 282,108	\$ 98,896

**Chicago IBX Financing**

In February 2007, a wholly-owned subsidiary of the Company obtained a loan of up to \$110,000,000 to finance up to 60% of the development and construction costs of the Chicago Metro Area IBX Expansion Project (the *Chicago IBX Financing*). The Company periodically receives advances of funds in conjunction with costs incurred for construction of its Chicago Metro Area IBX Expansion Project (the *Loan Payable*). As of September 30, 2007, the Company had received advances totaling \$93,721,000. As a result, up to \$16,279,000 remained available for borrowing from the Chicago IBX Financing and is expected to be borrowed periodically during the remaining construction period of the Chicago Metro Area IBX Expansion Project until completion by the end of 2007.



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The Loan Payable has a maturity date of January 31, 2010, with options to extend for up to an additional two years, in one-year increments, upon satisfaction of certain extension conditions. The Loan Payable bears interest at a floating rate (one, three or six month LIBOR plus 2.75%) with interest payable monthly, which commenced March 1, 2007. As of September 30, 2007, the Loan Payable had an effective interest rate of 8.375% per annum. The Chicago IBX Financing has no specific financial covenants and contains a limited parent company guaranty.

The debt issuance costs related to the Chicago IBX Financing were capitalized and are being amortized to interest expense using the effective interest method through January 31, 2010. Debt issuance costs related to the Chicago IBX Financing, net of amortization, were \$2,064,000 as of September 30, 2007.

***Asia-Pacific Financing***

In August 2007, two wholly-owned subsidiaries of the Company, located in Singapore and Tokyo, Japan, entered into an approximately \$40,000,000 multi-currency credit facility agreement (the Asia-Pacific Financing). The Asia-Pacific Financing has a four-year term that allows these two subsidiaries to borrow up to 23,000,000 Singapore dollars and 2,932,500,000 Japanese yen, respectively, during the first 12-month period with repayment to occur over the remaining three years in twelve 12 quarterly installments (collectively, the Loans Payable). Amounts undrawn at the end of the 12-month period shall be cancelled. The Asia-Pacific Financing has a commitment fee of 0.3% on unutilized amounts during the 12-month draw period and bears interest at a floating rate (the relevant three-month local cost of funds for Singapore and Japan), as applicable, plus 1.85%-2.50% depending on the ratio of the Company's senior indebtedness to its earnings before interest, taxes, depreciation and amortization, or EBITDA, with interest payable quarterly. The Asia-Pacific Financing may be used by these two subsidiaries to fund capital expenditures on leasehold improvements, equipment, and other installation costs related to expansion plans in Singapore and Tokyo. The Asia-Pacific Financing is guaranteed by the parent, Equinix Inc., is secured by the assets of these two subsidiaries and has several financial covenants, with which the Company must comply quarterly. As of September 30, 2007, the Company had borrowed 18,282,000 Singapore dollars at an initial interest rate per annum of 4.66% and 1,476,833,000 Japanese yen at an initial interest rate per annum of 2.69%. Collectively the amounts borrowed equal \$25,033,000 leaving \$14,967,000 available to borrow under the Asia-Pacific Financing. As of September 30, 2007, the Company was in compliance with all financial covenants in connection with the Asia-Pacific Financing.

The debt issuance costs related to the Asia-Pacific Financing were capitalized and are being amortized to interest expense using the effective interest method over the four-year life of the Asia-Pacific Financing. Debt issuance costs related to the Asia-Pacific Financing, net of amortization, were \$636,000 as of September 30, 2007.

***European Financing***

In September 2007, as a result of the IXEurope Acquisition (see Note 2), a wholly-owned subsidiary of the Company acquired a senior facilities agreement totaling 82,000,000 British pounds (or approximately \$166,116,000 as translated using effective exchange rates as of September 30, 2007) (the European Financing). The European Financing is comprised of three facilities: (i) Facility A, which is available to draw upon through March 2008, provides for a term loan of up to 40,000,000 British pounds and bears a floating interest rate per annum of between 0.75% and 2.0% above LIBOR or EURIBOR; (ii) Facility B, which is available to draw upon through June 2010, provides for a term loan of up to 40,000,000 British pounds and bears a floating interest rate per annum of between 0.75% and 2.25% above LIBOR or EURIBOR and (iii) Facility C, which is available to draw upon through May 2014, provides for a revolving credit facility of up to 2,000,000 British pounds and bears a floating interest rate per annum of between 0.75% and 2.0% above LIBOR or EURIBOR (collectively, the Loans Payable). The European Financing has a final maturity date of June 30, 2014 and interest is payable in periods of one, two, three or six months at the choice of the Company's European subsidiary. Facility A will be repaid in 13 semi-annual installments commencing June 30, 2008. Facility B will be repaid in nine semi-annual installments commencing June 30, 2010. Facility C will be repaid at the final maturity date. The European Financing is available to fund the Company's subsidiary's current or future operations in Europe, including capital expenditures, for certain pre-approved

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

subsidiaries in Europe. The European Financing is collateralized by certain of the Company's assets in Europe and contains several financial covenants with which the Company must comply quarterly. As of September 30, 2007, the Company was in compliance with all financial covenants in connection with the European Financing.

Upon a written request from the Company at any time after December 31, 2007 and through the final maturity date, and upon approval by the lenders, an additional term loan of up to 15,000,000 British pounds (or approximately \$30,387,000 as translated using effective exchange rates as of September 30, 2007) may be made available to the Company. The European Financing requires the Company to hedge the floating interest rates inherent in the European Financing. As a result, the Company has two interest rate swaps outstanding in connection with the European Financing, which are accounted for under the provisions of SFAS No., 133 Accounting for Derivative Instruments and Hedging Activities, as amended (see Note 1).

As of September 30, 2007, the Company had borrowed a total of 32,596,000 British pounds (or approximately \$66,032,000 as translated using effective exchange rates as of September 30, 2007) under the European Financing at a blended interest rate per annum of 7.65% leaving 49,404,000 British pounds (or approximately \$100,084,000 as translated using effective exchange rates as of September 30, 2007) available to borrow under the European Financing.

***Silicon Valley Bank Credit Line***

In March 2007, the Company amended certain provisions of the Silicon Valley Bank Credit Line which related to certain financial covenants, the addition of a liquidity covenant and the revision of the definition of Approved Subordinated Debt in order to allow the Company to proceed with the 2.50% Convertible Subordinated Notes offering (see Footnote 11). The liquidity covenant requires the Company to maintain total liquidity of at least \$75,000,000. The liquidity covenant is defined as the sum of cash, cash equivalents, short-term investments, 80% of long-term investments and 10% of net accounts receivable. In the event of a default, Silicon Valley Bank has the right to exercise a notice of control to give Silicon Valley Bank the sole right to control, direct or dispose of the assets as it deems necessary to satisfy the Company's obligations under the Silicon Valley Bank Credit Line, if any. In September 2007, the Company further amended certain provisions of the Silicon Valley Bank Credit Line which related to certain financial covenants and the definition of Designation of Obligations to include the Company's 3.00% Convertible Subordinated Notes offering that closed on September 26, 2007. As of September 30, 2007, the Company was in compliance with all financial covenants in connection with the amended Silicon Valley Bank Credit Line.

Borrowings under the Silicon Valley Bank Credit Line continue to bear interest at variable interest rates, plus the applicable margins, in effect prior to the amendment, based on either prime rates or LIBOR rates. The Silicon Valley Bank Credit Line matures on September 15, 2008 and remains secured by substantially all of the Company's domestic personal property assets and certain of the Company's real property leases.

As of September 30, 2007, letters of credit totaling \$14,919,000 had been issued and were outstanding under the Silicon Valley Bank Credit Line. However, no borrowings were outstanding under the Silicon Valley Bank Credit Line. As a result, the amount of borrowings available to the Company was \$60,081,000. These letters of credit automatically renew in successive one-year periods until the final termination. If the beneficiaries for any of these letters of credit decide to draw down on these letters of credit, the Company will be required to fund these letters of credit either through cash collateral or borrowings under the Silicon Valley Bank Credit Line. As of September 30, 2007, had the Company borrowed against the Silicon Valley Bank Credit Line, it would have had an effective interest rate of 7.87% per annum.

***Senior Bridge Loan***

In June 2007, the Company entered into a Senior Bridge Loan Credit Agreement (the Senior Bridge Loan) with Citibank, N.A., as Lender, and as agent for the Lender, for a principal amount of \$500,000,000, to secure temporary financing for the IXEurope Acquisition.

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The Senior Bridge Loan had an initial maturity of 12 months and, at the initial maturity date, would have been converted into a seven-year term loan that would have been exchangeable by the Lenders at any time into fixed-rate exchange notes with registration rights to the extent the Company drew down on the Senior Bridge Loan and any amounts outstanding under the Senior Bridge Loan were not repaid within one year. The Senior Bridge Loan bore interest at floating rates during the first three months at an initial rate of LIBOR plus 3.50% per annum and the interest was payable quarterly. The rate for each subsequent three-month period increased by 0.5% over the floating rate in effect for the immediate preceding three-month period. The interest rate for each three-month period would have been equal to the greater of the interest rate applicable for such period or 9.0% per annum but would not have exceeded 11.25% per annum.

The Company incurred \$2,554,000 of debt issuance costs in securing the Senior Bridge Loan. In September 2007, the Senior Bridge Loan was terminated unused and, as a result, the Company recorded a loss on debt extinguishment totaling \$2,554,000 reflecting the immediate write-off of all such debt issuance costs previously capitalized.

**13. Debt Maturities**

Combined aggregate maturities for the Company's various debt facilities and other financing obligations as of September 30, 2007 were as follows (in thousands) (unaudited):

	Convertible debt	Mortgage and loans payable	Capital lease and other financing obligations	Total
2007 (three months remaining)	\$	\$ 2,541	\$ 2,939	\$ 5,480
2008		13,901	11,585	25,486
2009	32,250	26,763	11,666	70,679
2010		120,484	11,686	132,170
2011		26,327	11,760	38,087
2012 and thereafter	645,986	181,636	118,024	945,646
	678,236	371,652	167,660	1,217,548
Less amount representing interest		(89,544)	(75,949)	(165,493)
Plus amount representing residual property value			6,555	6,555
	678,236	282,108	98,266	1,058,610
Less current portion of principal		(3,162)	(3,765)	(6,927)
	\$ 678,236	\$ 278,946	\$ 94,501	\$ 1,051,683

**14. Commitments and Contingencies*****Legal Matters Relating to Stock Option Granting Practices***

On June 29, 2006 and September 18, 2006, shareholder derivative actions were filed in the Superior Court of the State of California, County of San Mateo, naming Equinix as a nominal defendant and several of Equinix's current and former officers and directors as individual defendants. These actions were consolidated, and the consolidated complaint was filed in January 2007. In March 2007, the state court stayed this action in deference to a federal shareholder derivative action filed in the United States District Court for the Northern District of California in October 2006. The federal action named Equinix as a nominal defendant and several current and former officers and directors as individual defendants. This complaint alleged that the individual defendants breached their fiduciary duties and violated California and federal securities laws as a result of purported backdating of stock options, insider trading and the dissemination of false statements. On April 12, 2007, the federal action



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was voluntarily dismissed without prejudice pursuant to a joint stipulation entered as an order by the court. On May 3, 2007, the state court lifted the stay on proceedings in the state court action and set a briefing schedule permitting the Company to file a motion to dismiss on the grounds that plaintiffs lack standing to sue on its behalf. The Company filed its motion to dismiss on June 4, 2007 and appeared for a hearing on the motion on August 6, 2007. The state court granted the Company's motion to dismiss and granted plaintiffs leave to amend their consolidated complaint. On October 1, 2007, plaintiffs filed an amended consolidated complaint. The amended consolidated complaint alleges that the individual defendants breached their fiduciary duties and violated

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

California securities law as a result of purported backdating of stock option grants, insider trading and the preparation and approval of inaccurate financial results. Plaintiffs seek to recover, on behalf of Equinix, unspecified monetary damages, corporate governance changes, equitable and injunctive relief, restitution and fees and costs. A motion to dismiss the amended consolidated complaint is pending. In addition to the pending state court derivative action, the Company may be subject to additional derivative or other lawsuits that may be presented on an individual or class basis alleging claims based on its stock option granting practices.

Responding to, investigating and/or defending against civil litigations and government inquiries regarding the Company's stock option grants and practices will present a substantial cost to the Company in both cash and the attention of certain management and may have a negative impact on the Company's operations. In addition, in the event of any negative finding or assertion by a court of law or any third-party claim related to the Company's stock option granting practices, the Company may be liable for damages, fines or other civil or criminal remedies, or be required to restate its prior period financial statements or adjust its current period financial statements. Any such adverse action could have a material adverse effect on the Company's business and current market value.

The Company believes that while an unfavorable outcome to any or all of the above-mentioned inquiries, cases or complaints is reasonably possible, it is not probable. As a result, the Company has not accrued for any settlements in connection with these legal matters as of September 30, 2007.

***Other Legal Actions***

On July 30, 2001 and August 8, 2001, putative shareholder class action lawsuits were filed against the Company, certain of its officers and directors (the Individual Defendants), and several investment banks that were underwriters of the Company's initial public offering (the Underwriter Defendants). The cases were filed in the United States District Court for the Southern District of New York, purportedly on behalf of investors who purchased the Company's stock between August 10, 2000 and December 6, 2000. In addition, similar lawsuits were filed against approximately 300 other issuers and related parties. The purported class action alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b), Rule 10b-5 and 20(a) of the Securities Exchange Act of 1934 against the Company and the Individual Defendants. The plaintiffs have since dismissed the Individual Defendants without prejudice. The suits allege that the Underwriter Defendants agreed to allocate stock in the Company's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases in the aftermarket at pre-determined prices. The plaintiffs allege that the prospectus for the Company's initial public offering was false and misleading and in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. On February 19, 2003, the Court dismissed the Section 10(b) claim against the Company, but denied the motion to dismiss the Section 11 claim. On December 5, 2006, the Second Circuit vacated a decision by the district court granting class certification in six focus cases, which are intended to serve as test cases. Plaintiffs selected these six cases, which do not include Equinix. On April 6, 2007, the Second Circuit denied a petition for rehearing filed by plaintiffs, but noted that plaintiffs could ask the district court to certify more narrow classes than those that were rejected.

Prior to the Second Circuit's decision, a majority of issuers, including Equinix, and their insurers had submitted a settlement agreement to the district court for approval. In light of the Second Circuit opinion, the parties agreed that the settlement could not be approved because the defined settlement class, like the litigation class, cannot be certified. On June 25, 2007, the Court approved a stipulation filed by the plaintiffs and the issuers which terminated the proposed settlement. On August 14, 2007, plaintiffs filed amended complaints in the six focus cases. On September 27, 2007, plaintiffs filed a motion for class certification in the six focus cases. If plaintiffs are successful in obtaining class certification, they are expected to amend the complaint against Equinix in the same manner that they amended the complaints against the focus case issuers and to seek certification of a class in the Equinix case. The amended complaints against the focus case issuers include a number of changes, such as changes to the definition of the purported class of investors, and the elimination of the Individual Defendants as defendants. Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. The Company cannot predict whether it will be able to renegotiate a settlement that complies with the Second Circuit's mandate, nor can the Company predict the amount of any such settlement.

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While the Company is unable at this time to determine whether the outcome of the litigation would have a material impact on its results of operations, financial condition or cash flows, the Company has insurance coverage that it believes is sufficient to cover any reasonably possible liability resulting from this litigation. The Company and its officers and directors intend to continue to defend the actions vigorously.

***Estimated and Contingent Liabilities***

The Company estimates exposure on certain liabilities, such as income and property taxes, based on the best information available at the time of determination. With respect to real and personal property taxes, the Company records what it can reasonably estimate based on prior payment history, current landlord estimates or estimates based on current or changing fixed asset values in each specific municipality, as applicable. However, there are circumstances beyond the Company's control whereby the underlying value of the property or basis for which the tax is calculated on the property may change, such as a landlord selling the underlying property of one of the Company's IBX center leases or a municipality changing the assessment value in a jurisdiction and, as a result, the Company's property tax obligations may vary from period to period. Based upon the most current facts and circumstances, the Company makes the necessary property tax accruals for each of its reporting periods. However, revisions in the Company's estimates of the potential or actual liability could materially impact the financial position, results of operations or cash flows of the Company.

From time to time, the Company may have certain contingent liabilities that arise in the ordinary course of its business activities. The Company accrues contingent liabilities when it is probable that future expenditures will be made and such expenditures can be reasonably estimated. In the opinion of management, there are no pending claims for which the outcome is expected to result in a material adverse effect in the financial position, results of operations or cash flows of the Company.

***Other Purchase Commitments***

Primarily as a result of the Company's various IBX expansion projects, as of September 30, 2007, the Company was contractually committed for \$136,471,000 of unaccrued capital expenditures, primarily for IBX equipment not yet delivered and labor not yet provided, in connection with the work necessary to open these IBX centers and make them available to customers for installation. In addition, the Company had numerous other, non-capital purchase commitments in place as of September 30, 2007, such as commitments to purchase power in select locations, primarily in the U.S., Singapore and the United Kingdom, through 2007 and thereafter, and other open purchase orders for goods or services to be delivered or provided during 2007. Such other miscellaneous purchase commitments totaled \$33,609,000 as of September 30, 2007.

**15. Other Comprehensive Income and Loss**

The components of other comprehensive income and loss are as follows (in thousands) (unaudited):

	Three months ended		Nine months ended	
	September 30, 2007	September 30, 2006	September 30, 2007	September 30, 2006
Net income (loss)	\$ 4,124	\$ (5,168)	\$ 885	\$ (15,508)
Unrealized gain on available for sale securities	271	308	269	289
Foreign currency translation gain (loss)	6,732	(3)	6,634	1,376
Comprehensive income (loss)	\$ 11,127	\$ (4,863)	\$ 7,788	\$ (13,843)

There were no significant tax effects on comprehensive income (loss) for the three and nine months ended September 30, 2007 and 2006.



**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****16. Segment Information**

The Company and its subsidiaries are principally engaged in a single operational segment: the design, build-out and operation of network neutral IBX centers. All revenues result from the operation of these IBX centers. However, the Company operates in three distinct geographic segments, comprised of the U.S., Asia-Pacific and Europe. The Company's chief operating decision-maker evaluates performance, makes operating decisions and allocates resources based on financial data consistent with the presentation in the accompanying condensed consolidated financial statements and based on these three geographic segments.

The Company provides the following geographic statement of operations disclosures as follows (in thousands) (unaudited):

	Three months ended		Nine months ended	
	September 30, 2007	2006	September 30, 2007	2006
<b>Total revenues:</b>				
United States	\$ 83,685	\$ 63,654	\$ 234,461	\$ 178,394
Asia-Pacific	14,643	10,072	40,813	28,749
Europe	5,454		5,454	
	\$ 103,782	\$ 73,726	\$ 280,728	\$ 207,143
<b>Cost of revenues:</b>				
United States	\$ 49,695	\$ 43,529	\$ 143,123	\$ 121,507
Asia-Pacific	9,165	5,608	24,111	16,538
Europe	4,031		4,031	
	\$ 62,891	\$ 49,137	\$ 171,265	\$ 138,045
<b>Income (loss) from operations:</b>				
United States	\$ 6,386	\$ (3,967)	\$ 8,000	\$ (9,619)
Asia-Pacific	312	896	1,951	524
Europe	(619)		(619)	
	\$ 6,079	\$ (3,071)	\$ 9,332	\$ (9,095)

The Company's long-lived assets are located in the following geographic areas (in thousands) (unaudited):

	September 30,	December 31,
	2007 (unaudited)	2006
United States	\$ 896,195	\$ 553,619
Asia-Pacific	84,858	51,952
Europe	666,391	

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\$ 1,647,444      \$ 605,571

The Company's goodwill totaling \$430,277,000 as of September 30, 2007 was comprised of \$412,862,000 attributable to the Company's Europe reporting unit and \$17,415,000 attributable to the Company's Singapore reporting unit.

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Revenue information on a services basis is as follows (in thousands) (unaudited):

	Three months ended		Nine months ended	
	September 30, 2007	2006	September 30, 2007	2006
Colocation	\$ 75,282	\$ 51,678	\$ 200,682	\$ 145,235
Interconnection	18,798	13,862	53,171	38,310
Managed infrastructure	4,830	4,066	13,214	12,045
Rental	378	312	1,011	1,169
Recurring revenues	99,288	69,918	268,078	196,759
Non-recurring revenues	4,494	3,808	12,650	10,384
	\$ 103,782	\$ 73,726	\$ 280,728	\$ 207,143

No single customer accounted for 10% or greater of the Company's revenues for the three and nine months ended September 30, 2007 and 2006. No accounts receivables accounted for 10% or greater of the Company's gross accounts receivable as of September 30, 2007. Accounts receivable from one customer accounted for 10% of the Company's gross accounts receivable as of September 30, 2006. No other single customer accounted for more than 10% of the Company's gross accounts receivable as of September 30, 2006.

**17. Restructuring Charges*****2004 Restructuring Charges***

In December 2004, in light of the availability of fully built-out data centers in select markets at costs significantly below those costs the Company would incur in building out new space, the Company made the decision to exit leases for excess space adjacent to one of the Company's New York metro area IBXs, as well as space on the floor above its original Los Angeles IBX. As a result of the Company's decision to exit these spaces, the Company recorded restructuring charges totaling \$17,685,000, which represents the present value of the Company's estimated future cash payments, net of any estimated subrental income and expense, through the remainder of these lease terms, as well as the write-off of all remaining property and equipment attributed to the partial build-out of the excess space on the floor above its Los Angeles IBX as outlined below. Both lease terms run through 2015.

The Company estimated the future cash payments required to exit these two leased spaces, net of any estimated subrental income and expense, through the remainder of these lease terms and then calculated the present value of such future cash flows in order to determine the appropriate restructuring charge to record. The Company records accretion expense to accrete its accrued restructuring liability up to an amount equal to the total estimated future cash payments necessary to complete the exit of these leases. Should the actual lease exit costs differ from the Company's estimates, the Company may need to adjust its restructuring charges associated with the excess lease spaces, which would impact net income in the period such determination was made.

**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the movement in the 2004 accrued restructuring charge from December 31, 2006 to September 30, 2007 is outlined as follows (in thousands) (unaudited):

	Accrued restructuring charge as of December 31, 2006	Accretion expense	Restructuring charge adjustment	Cash payments	Accrued restructuring charge as of September 30, 2007
Estimated lease exit costs	\$ 13,857	\$ 613	\$ 407	\$ (2,247)	\$ 12,630
	13,857	\$ 613	\$ 407	\$ (2,247)	12,630
Less current portion	(3,096)				(3,778)
	\$ 10,761				\$ 8,852

During the three months ended June 30, 2007, the Company recorded an additional restructuring charge of \$407,000 as a result of revised sublease assumptions on one of these two excess space leases as new information became available. As the Company currently has no plans to enter into lump sum lease terminations with either of the landlords associated with these two excess space leases, the Company has reflected its accrued restructuring liability as both current and non-current on the accompanying condensed consolidated balance sheets as of September 30, 2007 and December 31, 2006. The Company is contractually committed to these two excess space leases through 2015.

**2005 Restructuring Charges**

In October 2005, in light of the availability of fully or partially built-out data centers in the Silicon Valley, including the possibility of expansion among some of the four IBX centers the Company currently has in the Silicon Valley, the Company made the decision that retaining the approximately 40 acre San Jose Ground Lease for future expansion was no longer economical. In conjunction with this decision, the Company entered into an agreement with the landlord of this property for the early termination of the San Jose Ground Lease property whereby the Company would pay \$40,000,000 over the next four years plus property taxes, which commenced on January 1, 2006, to terminate this lease, which would otherwise require significantly higher cumulative lease payments through 2020 (the "San Jose Ground Lease Termination"). As a result of the San Jose Ground Lease Termination, the Company recorded a \$33,814,000 restructuring charge in the fourth quarter of 2005, which represents the present value of the Company's estimated future cash payments to exit this property, as well as the write-off of all remaining property and equipment attributed to the development of this property.

The Company estimated the future cash payments required to exit the San Jose Ground Lease, net of any estimated subrental income and expense, through the remainder of these lease terms and then calculated the present value of such future cash flows in order to determine the appropriate restructuring charge to record. The Company's right to occupy this property terminates on December 31, 2007 and can be terminated at any time prior to December 31, 2007 upon the landlord providing the Company at least 10 days prior written notice; however, even if the landlord early terminates, the Company is still required to pay the full \$40,000,000 of payments due. The Company records accretion expense to accrete its accrued restructuring liability up to an amount equal to the total estimated future cash payments necessary to complete the exit of the San Jose Ground Lease.



**Table of Contents****EQUINIX, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the movement in the 2005 accrued restructuring charge from December 31, 2006 to September 30, 2007 is outlined as follows (in thousands) (unaudited):

	Accrued restructuring charge as of December 31, 2006	Accretion expense	Cash payments	Accrued restructuring charge as of September 30, 2007
Estimated lease exit costs	\$ 27,715	\$ 1,321	\$ (7,853)	\$ 21,183
	27,715	\$ 1,321	\$ (7,853)	21,183
Less current portion	(10,373)			(10,364)
	\$ 17,342			\$ 10,819

**18. Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS No. 157 ). SFAS No. 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after December 15, 2007. The Company is currently in the process of evaluating the impact that the adoption of SFAS No. 157 will have on its financial position, results of operations and cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS No. 159 ). SFAS No. 159 permits companies to choose to measure, on an instrument-by-instrument basis, many financial instruments and certain other assets and liabilities at fair value that are not currently required to be measured at fair value. SFAS No. 159 is effective as of the beginning of a fiscal year that begins after November 15, 2007. The Company is currently in the process of evaluating the impact that the adoption of SFAS No. 159 will have on its financial position, results of operations and cash flows.

**19. Subsequent Events**

In October 2007, the Company amended certain provisions of the \$75,000,000 Silicon Valley Bank Credit Line which primarily related to the modification of certain financial covenants as a result of the issuance of 3.00% Convertible Subordinated Notes.

In October 2007, the Company received additional advances related to the Chicago IBX Financing (see Note 12) totaling \$4,787,000, bringing the cumulative Loan Payable to date to \$98,508,000 with a blended interest rate of 7.94% per annum. As a result, the amount available to borrow from the Chicago IBX Financing totals \$11,492,000.

In October 2007, the Company received additional advances related to the European Financing (see Note 12) totaling 6,000,000 British pounds or approximately \$12,308,000, bringing the cumulative Loan Payable to date to 38,621,000 British pounds or approximately \$79,226,000 with a blended interest rate of 7.62% per annum. As a result, the amount available to borrow from the European Financing totals 43,379,000 British pounds or approximately \$86,890,000.

**Table of Contents****Item 2.****MANAGEMENT'S DISCUSSION AND ANALYSIS****OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, the words believes, anticipates, plans, expects, intends and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a discrepancy include, but are not limited to, those discussed in Liquidity and Capital Resources below and Risk Factors in Item 1A of Part II of this Quarterly Report on Form 10-Q. All forward-looking statements in this document are based on information available to us as of the date of this Report and we assume no obligation to update any such forward-looking statements.*

**Overview**

Equinix provides network neutral colocation, interconnection and managed services to enterprises, content companies, systems integrators and the world's largest network providers. In September 2007, we completed the acquisition of IXEurope Plc, or IXEurope, headquartered in London, U.K., whereby IXEurope became our wholly-owned subsidiary. We refer to this transaction as the IXEurope acquisition. IXEurope, a similar business to ours, operates network neutral data centers in the United Kingdom, France, Germany and Switzerland and provides us with an immediate entry into the European data center market, supplementing our existing U.S. and Asia-Pacific operations. As of September 30, 2007, we operate IBX centers in the Chicago, Dallas, Los Angeles, New York, Silicon Valley and Washington, D.C. metro areas in the United States, Hong Kong, Singapore, Australia and Japan in the Asia-Pacific region, and the United Kingdom, France, Germany and Switzerland in the Europe region.

Direct interconnection to our aggregation of networks, which serve more than 90% of the world's Internet routes, allows our customers to increase performance while significantly reducing costs. Based on our network neutral model and the quality of our IBX centers, we believe we have established a critical mass of customers. As more customers locate in our IBX centers, it benefits their suppliers and business partners to do so as well to gain the full economic and performance benefits of direct interconnection. These partners, in turn, pull in their business partners, creating a network effect of customer adoption. Our interconnection services enable scalable, reliable and cost-effective interconnection and traffic exchange thus lowering overall cost and increasing flexibility. Our focused business model is based on our critical mass of customers and the resulting network effect. This critical mass and the resulting network effect, combined with our strong financial position, continue to drive new customer growth and bookings.

Historically, our market has been served by large telecommunications carriers who have bundled their telecommunications products and services with their colocation offerings. A number of these telecommunications carriers have eliminated or reduced their colocation footprint to focus on their core businesses. In 2003, as an example, one major telecommunications company, Sprint, announced its plans to exit the colocation and hosting market in order to focus on its core service offerings, while another telecommunications company, Cable & Wireless Plc, sold its U.S. assets to another telecommunications company, Savvis Communications Corp, in a bankruptcy auction. In 2005 and 2006, other providers, such as Abovenet and Verio, have selectively sold off certain of their colocation centers. Each of these colocation providers own and operate a network. We do not own or operate a network, yet have greater than 200 networks operating out of our IBX centers. As a result, we are able to offer our customers a substantial choice of networks given our network neutrality thereby allowing our customers to choose from numerous network service providers. We believe this is a distinct and sustainable competitive advantage, especially when the telecommunications industry is experiencing many business challenges and changes as evidenced by the numerous bankruptcies and consolidations within this industry during the past several years. Furthermore, this industry consolidation has constrained the supply of suitable data center space and has had a positive effect on industry pricing.

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Excluding the impact of the IXEurope acquisition, our customer count increased to 1,453 as of September 30, 2007 versus 1,260 as of September 30, 2006, an increase of 15%. Our utilization rate represents the percentage of our cabinet space billing versus total cabinet space available. Excluding the impact of the IXEurope acquisition, our utilization rate was 61% as of September 30, 2007 and 54% as of September 30, 2006; however, further excluding the impact of our recent IBX center openings in the Los Angeles, Chicago, Silicon Valley and Washington, D.C. metro areas, our utilization rate would have been 62% as of September 30, 2007. Our utilization rate varies from market to market among our IBX centers in our markets across the U.S., Asia-Pacific and Europe. We continue to monitor the available capacity in each of our selected markets. To the extent we have limited capacity available in a given market, it may limit our ability for growth in that market. Once capacity becomes limited, we will perform demand studies to determine if future expansion is warranted. In addition, power and cooling requirements for most customers are growing on a per unit basis. As a result, customers are consuming an increasing amount of power per cabinet. Although we generally do not control the amount of draw our customers take from installed circuits, we have negotiated power consumption limitations with certain of our high power demand customers. This increased power consumption has driven the requirement to build out our new IBX centers to support power and cooling needs twice that of previous IBX centers. We could face power limitations in our centers even though we may have additional physical capacity available within a specific IBX center. This could have a negative impact on the available utilization capacity of a given center, which could have a negative impact on our ability to grow revenues, affecting our financial performance, operating results and cash flows. As a result of these power limitations in our IBX centers that were opened before 2007, the maximum utilization rate that we expect to achieve for most IBX centers until we consider an IBX center full or sold-out is approximately 75-80% depending on the building configurations. Due to these power limitations, commencing with the first quarter of 2007, we began to track the utilization of our centers on a net sellable cabinet capacity basis. Therefore, our utilization rate as of September 30, 2007 on a net sellable cabinet capacity basis, excluding the impact of IXEurope acquisition, was 79% versus the 61% noted above under our previous utilization rate methodology, which does not factor in these power limitations.

Strategically, we will continue to look at attractive opportunities to grow our market share and selectively improve our footprint and service offerings, such as our 2005 expansions in the Silicon Valley, Chicago and Los Angeles metro area markets, our 2006 expansions in the Washington, D.C., Chicago, New York and Tokyo, Japan metro area markets, which opened in 2007 (see Recent Developments below), and our 2007 San Jose and Los Angeles property acquisitions and expansions in the Singapore, Washington, D.C., Silicon Valley and Los Angeles metro area markets, as well as the IXEurope acquisition. However, we will continue to be very selective with any similar opportunities. As was the case with these recent expansions in our existing markets in the Washington, D.C., Silicon Valley, Chicago, Los Angeles, Tokyo and Singapore metro area markets or our expansion in new markets, such as Europe with the IXEurope acquisition, our expansion criteria will be dependent on demand from new and existing customers, quality of the design, power capacity, access to networks, capacity availability in current market location, amount of incremental investment required by us in the targeted property, lead-time to break-even and in-place customers. Like our recent expansions, the right combination of these factors may be attractive to us. Dependent on the particular deal, these acquisitions may require upfront cash payments and additional capital expenditures or may be funded through long-term financing arrangements in order to bring these properties up to Equinix standards. Property expansion may be in the form of a purchase of real property, long-term leasing arrangements or acquisitions. Future purchases, construction or acquisitions may be completed by us or with partners or potential customers to minimize the outlay of cash, which can be significant.

Our business is based on a recurring revenue model comprised of colocation, interconnection and managed infrastructure services. We consider these services recurring as our customers are billed on a fixed and recurring basis each month for the duration of their contract, which is generally one to three years in length. Our recurring revenues are a significant component of our total revenues comprising greater than 90% of our total revenues. Over the past few years, greater than half of our then existing customers order new services in any given quarter representing greater than half of the new orders received in each quarter.

Our non-recurring revenues are primarily comprised of installation services related to a customer's initial deployment and professional services that we perform. These services are considered to be non-recurring as they are billed typically once and only upon completion of the installation or professional services work performed. The majority of these non-recurring revenues are typically billed on the first invoice distributed to the customer in connection with their initial installation. As a percentage of total revenues, we expect non-recurring revenues to represent less than 10% of total revenues for the foreseeable future.

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The largest cost components of our cost of revenues are depreciation, rental payments related to our leased IBX centers, utility costs including electricity and bandwidth, IBX employees' salaries and benefits, including stock-based compensation, supplies and equipment and security services. A substantial majority of our cost of revenues is fixed in nature and should not vary significantly from period to period. However, there are certain costs, which are considered more variable in nature, including utilities and supplies, that are directly related to growth in our existing and new customer base. We expect the cost of our utilities, specifically electricity, will increase in the future on a per unit or fixed basis in addition to on a customer growth or variable basis. In addition, the cost of electricity is generally higher in the summer months as compared to other times of the year.

Sales and marketing expenses consist primarily of compensation and related costs for sales and marketing personnel, including stock-based compensation, sales commissions, marketing programs, public relations, promotional materials and travel.

General and administrative expenses consist primarily of salaries and related expenses, including stock-based compensation, accounting, legal and other professional service fees, other general corporate expenses such as our corporate headquarter office lease and some depreciation expense.

## **Recent Developments**

In January 2007, we entered into a conditional purchase agreement to purchase the building and property where our original Silicon Valley IBX center is located for \$65.2 million, including closing costs, which was paid in full in a cash transaction during July 2007 following an initial \$6.5 million cash deposit paid in January 2007. Furthermore, in August 2007, we purchased an adjacent piece of land for \$6.2 million, including closing costs, for potential future expansion. We refer to these transactions as the Silicon Valley property acquisition.

In February 2007, one of our wholly-owned subsidiaries obtained a loan of up to \$110.0 million to finance up to 60% of the development and construction costs of our Chicago metro area IBX expansion project. We refer to this transaction as the Chicago IBX financing. We periodically receive advances of funds in conjunction with costs incurred for the construction of our Chicago metro area IBX expansion project, which we refer to as our loan payable. As of September 30, 2007, we had received advances totaling \$93.7 million. As a result, up to \$16.3 million remained available for borrowing from the Chicago IBX financing and is expected to be borrowed periodically during the remaining construction period of the Chicago metro area IBX expansion project until its completion by the end of 2007. The loan payable has a maturity date of January 31, 2010, with options to extend for up to an additional two years, in one-year increments, upon satisfaction of certain extension conditions. The loan payable bears interest at a floating rate (one, three or six month LIBOR plus 2.75%) with interest payable monthly, which commenced March 1, 2007. In October 2007, we received additional advances totaling \$4.8 million, bringing the cumulative loan payable to date to \$98.5 million with a blended interest rate of 7.94% per annum.

In March and July 2007, we entered into long-term leases for new space in the same building in which our existing Singapore IBX center is located. Minimum payments under these leases, which qualify as operating leases, total 5.0 million Singapore dollars (approximately \$3.3 million as translated using effective exchange rates at September 30, 2007) in cumulative lease payments with monthly payments commencing in the third quarter of 2007. We are building out this new space in multiple phases and plan to invest approximately \$15.9 million in total, of which approximately \$12.2 million was incurred as of September 30, 2007.

In March 2007, we extended an offer of employment to Stephen M. Smith to serve as our Chief Executive Officer and President. Mr. Smith commenced his employment with us on April 2, 2007. Prior to joining us, Mr. Smith served as senior vice president at HP Services, an operating segment of Hewlett-Packard Co., from January 2005 to October 2006. Prior to joining Hewlett-Packard Co., Mr. Smith served as vice president of global professional and managed services at Lucent Technologies Inc. from September

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2003 to January 2005. From October 1987 to September 2003, he spent 17 years with Electronic Data Systems Corporation in a variety of positions, including chief sales officer, president of EDS Asia-Pacific, and president of EDS Western Region. Mr. Smith earned a Bachelor of Science degree in engineering from the U.S. Military Academy at West Point.

In March 2007, we entered into agreements with certain holders of our convertible subordinated debentures due February 15, 2024, pursuant to which we agreed to exchange an aggregate of 1.4 million newly issued shares of our common stock for such holders \$54.0 million of \$86.3 million principal amount of the convertible subordinated debentures. The number of shares of common stock issued equaled the amount issuable upon conversion of the convertible subordinated debentures in accordance with their original terms. In addition, each holder received cash consideration equal to accrued and unpaid interest through the redemption date totaling \$110,000, as well as the present value of future interest due through February 15, 2009 and an incremental fee, totaling \$3.4 million, which was recorded as loss on conversion of debt during the three months ended March 31, 2007.

In March 2007, we announced our intention to build out a new IBX center within the Ashburn campus, which will be the fifth IBX center in the Washington, D.C. metro area, in order to further expand our existing Washington, D.C metro area IBX center. We refer to this project as the Washington, D.C. metro area IBX expansion project. We plan to spend approximately \$70.0 million for the Washington, D.C. metro area IBX expansion project, of which \$9.3 million was incurred as of September 30, 2007.

In March 2007, we issued \$250.0 million in aggregate principal amount of 2.50% convertible subordinated notes due 2012. The initial conversion rate is 8.9259 shares of common stock per \$1,000 principal amount of convertible subordinated notes, subject to adjustment. This represents an initial conversion price of approximately \$112.03 per share of common stock or 2.2 million shares of our common stock. Upon conversion, holders will receive, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock. We have used or intend to use the net proceeds from this offering for general corporate purposes, including the funding of our expansion activities and working capital requirements. We refer to this transaction as the 2.50% convertible subordinated notes offering.