EQUINIX INC
Form 10-Q
November 06, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission File Number 000-31293

EQUINIX, INC.

(Exact name of registrant as specified in its charter)

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

One Lagoon Drive, Fourth Floor, Redwood City, California 94065

(Address of principal executive offices, including ZIP code)

(650) 598-6000

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The number of shares outstanding of the registrant s Common Stock as of September 30, 2012 was 48,625,247.

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

EQUINIX, INC.

Condensed Consolidated Balance Sheets

(in thousands)

	September 30, 2012 (unaudited)	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 239,687	$ 278,823
Short-term investments	164,787	635,721
Accounts receivable, net	181,973	139,057
Assets held-for-sale (Note 4)	68,991	
Other current assets	69,748	182,156
Total current assets	725,186	1,235,757
Long-term investments	115,362	161,801
Property, plant and equipment, net	3,791,063	3,225,912
Goodwill	1,043,284	866,495
Intangible assets, net	200,648	148,635
Other assets	115,427	146,724
Total assets	$ 5,990,970	$ 5,785,324
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 244,712	$ 229,043
Accrued property, plant and equipment	141,025	93,224
Current portion of capital lease and other financing obligations	14,853	11,542
Current portion of loans payable	49,332	87,440
Current portion of convertible debt		246,315
Current portion of deferred tax liabilities	70,304	394
Liabilities held-for-sale (Note 4)	22,745	
Other current liabilities	69,488	57,296
Total current liabilities	612,459	725,254
Capital lease and other financing obligations, less current portion	487,868	390,269
Loans payable, less current portion	199,349	168,795
Convertible debt, less current portion	705,127	694,769
Senior notes	1,500,000	1,500,000
Other liabilities	174,327	286,424
Total liabilities	3,679,130	3,765,511

Redeemable non-controlling interests (Note 11)	78,191	67,601
Commitments and contingencies (Note 12)		
Stockholders equity:		
Common stock	49	48
Additional paid-in capital	2,539,235	2,437,623
Treasury stock	(36,706)	(86,666)
Accumulated other comprehensive loss	(113,642)	(143,698)
Accumulated deficit	(155,287)	(255,095)
Total stockholders equity	2,233,649	1,952,212
Total liabilities, redeemable non-controlling interests and stockholders equity	$ 5,990,970	$ 5,785,324

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	(unaudited)			
Revenues	$ 488,730	$ 408,208	$ 1,389,224	$ 1,147,668
Costs and operating expenses:				
Cost of revenues	251,487	219,724	693,874	612,580
Sales and marketing	53,211	42,884	147,224	113,211
General and administrative	83,621	65,873	242,532	193,986
Restructuring charges		1,587		2,186
Acquisition costs	4,542	699	6,883	2,729
Total costs and operating expenses	392,861	330,767	1,090,513	924,692
Income from continuing operations	95,869	77,441	298,711	222,976
Interest income	1,054	679	2,708	1,526
Interest expense	(50,207)	(51,114)	(149,812)	(126,152)
Other income (expense)	507	(1,694)	(1,491)	1,438
Loss on debt extinguishment	(5,204)		(5,204)	
Income from continuing operations before income taxes	42,019	25,312	144,912	99,788
Income tax expense	(13,498)	(5,137)	(44,489)	(24,090)
Net income from continuing operations	28,521	20,175	100,423	75,698
Net income from discontinued operations (Note 4)	679	464	1,228	819
Net income	29,200	20,639	101,651	76,517
Net income attributable to redeemable non-controlling interests	(362)	(320)	(1,843)	(323)
Net income attributable to Equinix	$ 28,838	$ 20,319	$ 99,808	$ 76,194
Earnings per share (EPS) attributable to Equinix:				
Basic EPS from continuing operations	$ 0.58	$ 0.20	$ 2.06	$ 1.38
Basic EPS from discontinued operations	0.02	0.01	0.03	0.02
Basic EPS	$ 0.60	$ 0.21	$ 2.09	$ 1.40
Weighted-average shares	48,361	47,202	47,779	46,861
Diluted EPS from continuing operations	$ 0.57	$ 0.19	$ 2.01	$ 1.36

Diluted EPS from discontinued operations		0.01		0.01		0.02		0.01
Diluted EPS	$	0.58	$	0.20	$	2.03	$	1.37
Weighted-average shares		52,655		47,943		51,724		47,694

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	(unaudited)			
Net income	$ 29,200	$ 20,639	$ 101,651	$ 76,517
Other comprehensive income (loss), net of tax:				
Foreign currency translation gain (loss)	41,782	(88,659)	26,887	(17,227)
Unrealized gain (loss) on available for sale securities	113	(241)	14	(267)
	41,895	(88,900)	26,901	(17,494)
Comprehensive income (loss), net of tax	71,095	(68,261)	128,552	59,023
Net income attributable to redeemable non-controlling interests	(362)	(320)	(1,843)	(323)
Other comprehensive loss attributable to redeemable non-controlling interests	240	10,163	3,155	9,096
Comprehensive income (loss) attributable to Equinix	$ 70,973	$ (58,418)	$ 129,864	$ 67,796

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)

	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 101,651	$ 76,517
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	278,214	240,096
Stock-based compensation	62,234	53,060
Excess tax benefits from stock-based compensation	(53,174)	
Restructuring charges		2,186
Amortization of debt issuance costs and debt discounts	18,057	23,816
Amortization of intangible assets	16,668	14,207
Provision for allowance for doubtful accounts	4,031	3,609
Accretion of asset retirement obligation and accrued restructuring charges	3,412	3,473
Loss on debt extinguishment	5,204	
Other items	2,210	1,933
Changes in operating assets and liabilities:		
Accounts receivable	(46,900)	(26,299)
Other assets	31,020	(7,217)
Accounts payable and accrued expenses	19,307	(9,492)
Other liabilities	(19,007)	24,099
Net cash provided by operating activities	422,927	399,988
Cash flows from investing activities:		
Purchases of investments	(365,934)	(1,027,855)
Sales of investments	338,192	104,800
Maturities of investments	542,155	274,620
Purchases of property, plant and equipment	(554,092)	(495,515)
Purchase of real estate		(23,993)
Purchase of Asia Tone, net of cash acquired	(188,798)	
Purchase of ancotel, net of cash acquired	(84,236)	
Purchase of ALOG, net of cash acquired		(41,954)
Increase in restricted cash	(8,270)	(95,932)
Release of restricted cash	87,437	1,000
Other investing activities, net		10
Net cash used in investing activities	(233,546)	(1,304,819)
Cash flows from financing activities:		
Purchases of treasury stock	(13,364)	
Proceeds from employee equity awards	50,139	35,704
Excess tax benefits from stock-based compensation	53,174	
Proceeds from senior notes		750,000
Proceeds from loans payable	258,542	90,635
Repayment of capital lease and other financing obligations	(8,907)	(7,404)
Repayment of loans payable	(315,779)	(21,273)

Repayment of convertible debt	(250,007)	
Debt issuance costs	(8,767)	(15,551)
Net cash provided by (used in) financing activities	(234,969)	832,111
Effect of foreign currency exchange rates on cash and cash equivalents	6,452	402
Net decrease in cash and cash equivalents	(39,136)	(72,318)
Cash and cash equivalents at beginning of period	278,823	442,841
Cash and cash equivalents at end of period	$ 239,687	$ 370,523
Supplemental cash flow information:		
Cash paid for taxes	$ 19,578	$ 7,172
Cash paid for interest	$ 157,917	$ 100,283

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Equinix, Inc. (Equinix or the Company) and reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state the financial position and the results of operations for the interim periods presented. The condensed consolidated balance sheet data at December 31, 2011 has been derived from audited consolidated financial statements at that date. The condensed consolidated financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (SEC), but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles in the United States of America. 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 24, 2012. Results for the interim periods are not necessarily indicative of results for the entire fiscal year.

In September 2012, the Company announced that its board of directors approved a plan to pursue conversion to a real estate investment trust (REIT) (the REIT Conversion). The Company plans to make a tax election for REIT status for the taxable year beginning January 1, 2015.

Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of Equinix and its subsidiaries, including the operations of Asia Tone Limited (Asia Tone) from July 4, 2012, ancotel GmbH (ancotel) from July 3, 2012 and ALOG Data Centers do Brasil S.A. (ALOG) from April 25, 2011. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reclassifications

Certain amounts in the accompanying consolidated financial statements have been reclassified to conform to the consolidated financial statement presentation as of and for the three and nine months ended September 30, 2012.

Income Taxes

The Company s effective tax rates for continuing operations were 30.7% and 24.1% for the nine months ended September 30, 2012 and 2011, respectively.

In October 2012, in connection with the planned REIT Conversion, the Company changed its method of depreciating and amortizing various data center assets for tax purposes from its current methods to a method more consistent with the characterization of such assets as real property for REIT purposes. As a result of this decision, the Company reclassified $69,909,000 of non-current deferred tax liabilities to current deferred tax liabilities as of September 30, 2012 associated with taxes that are expected to be paid in the next 12 months. The change in depreciation and amortization method also increased the Company s taxable income for 2012, resulting in an acceleration of the Company s usage of its operating and windfall employee equity award net operating loss carryforwards. As a result of the tax depreciation method change and the level of operating profits, the Company utilized approximately $250,000,000 of net operating losses for which a deferred tax asset had been previously recognized and approximately $135,000,000 of windfall tax losses not previously recognized. During the three months ended September 30, 2012, the Company recorded excess income tax benefits of $60,977,000 from stock-based compensation in its condensed consolidated balance sheets.

Discontinued Operations

Assets and liabilities to be disposed of that meet all of the criteria to be classified as held for sale as set forth in the accounting standard for impairment or disposal of long-lived assets are reported at the lower

EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of their carrying amounts or fair values less costs to sell. Assets are not depreciated or amortized while they are classified as held for sale. Assets and liabilities held for sale that have operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company s assets and liabilities are reported in discontinued operations when (a) it is determined that the operations and cash flows will be eliminated from the Company s continuing operations and (b) the Company will not have any significant continuing involvement in the operations of the assets and liabilities after the disposal transaction.

The Company s condensed consolidated statements of operations have been reclassified to reflect its discontinued operations for all periods presented. For further information on the Company s discontinued operations, see Note 4.

Fair Value of Financial Instruments

The carrying value of the Company s cash and cash equivalents, short-term and long-term investments represent their fair value, while the Company s accounts receivable, accounts payable and accrued expenses and accrued property, plant and equipment approximate their fair value due primarily to the short-term maturity of the related instruments. The fair value of the Company s debt, which is traded in the public debt market, is based on quoted market prices. The fair value of the Company s debt, which is not publicly traded, is estimated by considering the Company s credit rating, current rates available to the Company for debt of the same remaining maturities of structure and terms of the debt.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS), which amends ASC 820, Fair Value Measurement. ASU 2011-04 does not extend the use of fair value, but provides guidance on how it should be applied where its use is already required or permitted by other standards within U.S. GAAP or IFRS. ASU 2011-04 changes the wording used to describe many requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, ASU 2011-04 clarifies the FASB s intent about the application of existing fair value measurements. ASU 2011-04 is effective for interim and annual periods beginning after December 15, 2011 and is applied prospectively. During the three months ended March 31, 2012, the Company adopted ASU 2011-04 and the adoption did not have a material impact to its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. This ASU is intended to increase the prominence of other comprehensive income in financial statements by presenting the components of net income and other comprehensive income in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. The new guidance eliminated the option to report other comprehensive income and its components in the statement of changes in stockholders equity. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. During the three months ended March 31, 2012, the Company adopted ASU 2011-05 and the adoption did not have a material impact to its consolidated financial statements other than the addition of the condensed consolidated statements of comprehensive income.

In December 2011, the FASB issued ASU 2011-12, Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05. This ASU defers the requirement that companies present reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. This new guidance is effective for fiscal years and interim periods beginning after December 15, 2011. During the three months ended March 31, 2012, the Company adopted ASU 2011-12 and the adoption did not have a material impact to its consolidated financial statements.

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In December 2011, the FASB issued ASU 2011-11, Disclosures about Offsetting Assets and Liabilities. This ASU requires companies to disclose both gross information and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. This new guidance is effective for interim and annual periods beginning on or after January 1, 2013 and retrospective disclosure is required for all comparative periods presented. The Company is currently evaluating the impact that the adoption of this standard will have to its consolidated financial statements, if any.

2. Earnings Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net income from continuing operations	$ 28,521	$ 20,175	$ 100,423	$ 75,698
Net income attributable to redeemable non-controlling interests	(362)	(320)	(1,843)	(323)
Adjustments attributable to redemption value of redeemable non-controlling interests		(10,639)		(10,639)
Net income from continuing operations attributable to Equinix, basic	28,159	9,216	98,580	64,736
Effect of assumed conversion of convertible debt:				
Interest expense, net of tax	1,696		5,073	
Net income from continuing operations attributable to Equinix, diluted	$ 29,855	$ 9,216	$ 103,653	$ 64,736
Weighted-average shares used to compute basic EPS	48,361	47,202	47,779	46,861
Effect of dilutive securities:				
Convertible debt	3,328		2,945	
Employee equity awards	966	741	1,000	833
Weighted-average shares used to compute diluted EPS	52,655	47,943	51,724	47,694
EPS from continuing operations attributable to Equinix:				
EPS from continuing operations, basic	$ 0.58	$ 0.20	$ 2.06	$ 1.38
EPS from continuing operations, diluted	$ 0.57	$ 0.19	$ 2.01	$ 1.36

EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Shares reserved for conversion of 2.50% convertible subordinated notes		2,232	863	2,232
Shares reserved for conversion of 3.00% convertible subordinated notes		2,945		2,945
Shares reserved for conversion of 4.75% convertible subordinated notes	4,433	4,433	4,433	4,433
Common stock related to employee equity awards	137	685	114	657
	4,570	10,295	5,410	10,267

3. Business Combinations

Asia Tone Acquisition

On July 3, 2012 (the Asia Tone Acquisition Date), the Company acquired certain assets and operations of Asia Tone, a privately-owned company headquartered in Hong Kong, for gross cash consideration of $230,500,000 (the Asia Tone Acquisition). The Company agreed to pay net cash consideration of approximately $208,277,000 as a result of adjustments to the purchase price included in the purchase and sale agreement, of which approximately $13,648,000 remained payable as of September 30, 2012. Asia Tone operates six data centers and one disaster recovery center in Hong Kong, Shanghai and Singapore. The Asia Tone Acquisition included one data center under construction in Shanghai. The combined company operates under the Equinix name.

The Company included Asia Tone s results of operations from July 4, 2012 and the estimated fair value of assets acquired and liabilities assumed in its condensed consolidated balance sheets beginning July 3, 2012. The Company incurred acquisition costs of $3,513,000 and $4,562,000, respectively, for the three and nine months ended September 30, 2012 related to the Asia Tone Acquisition.

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Purchase Price Allocation

The Asia Tone Acquisition was accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the total purchase price was allocated to Asia Tone s net tangible and intangible assets based upon their fair value as of the acquisition date. Based upon the purchase price and the valuation of Asia Tone, the preliminary purchase price allocation was as follows (in thousands):

Cash and cash equivalents	$ 5,831
Accounts receivable	1,595
Other current assets	595
Property, plant and equipment	138,276
Goodwill	121,054
Intangible assets	29,155
Other non-current assets	784
Total assets acquired	297,290
Accounts payable and accrued expenses	(1,304)
Accrued property, plant and equipment	(27,031)
Loans payable	(20,661)
Capital leases and other financing obligations	(6,455)
Other current liabilities	(9,497)
Deferred tax liabilities	(15,190)
Other non-current liabilities	(8,875)
Net assets acquired	$ 208,277

The Company continues to evaluate certain assets and liabilities related to the Asia Tone Acquisition. Additional information, which existed as of the Asia Tone Acquisition Date but was unknown to the Company at that time, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the Asia Tone Acquisition Date. Changes to the assets and liabilities recorded may result in a corresponding adjustment to goodwill.

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

Intangible assets	Fair value	Estimated useful lives (years)	Weighted-average estimated useful lives (years)
Customer contracts	$ 14,900	6 - 20	17.2
Customer relationships	13,800	7 - 11	8.7
Other	455	2 - 5	4.0

The fair value of customer contracts and customer relationships was estimated by applying an income approach. The fair value was determined by calculating the present value of estimated future operating cash flows generated from existing customers less costs to realize the revenue. The Company applied a weighted-average discount rate of approximately 14.4%, which reflects the nature of the assets as it relates to the estimated future operating cash flows. Other significant assumptions used to estimate the fair value of the customer contracts and customer relationships include projected revenue growth, customer attrition rates, sales and marketing expenses and operating margins. The fair value of the other

acquired identifiable intangible assets were estimated by applying an income or cost approach as appropriate. The fair value measurements were based on significant inputs that are not observable in the market and thus represent Level 3 measurements as defined in the accounting standard for fair value measurements.

The Company determined the fair value of the loans payable assumed in the Asia Tone Acquisition by estimating Asia Tone s debt rating and reviewed market data with a similar debt rating and other

EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

characteristics of the debt, including the maturity date and security type. The book value of Asia Tone s loans payable approximated their fair value as of the Acquisition Date.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The goodwill is not expected to be deductible for local tax purposes. Goodwill will not be amortized and will be tested for impairment at least annually. Goodwill recorded as a result of the Asia Tone Acquisition is attributable to the Company s Asia-Pacific reportable segment (see Note 14) and reporting unit (see Note 5).

For the three months ended September 30, 2012, Asia Tone recognized revenues of $10,607,000 and had an inconsequential amount of net loss, which were included in the Company s condensed consolidated statements of operations. The Asia Tone Acquisition was not material to the Company s consolidated balance sheets and results of operations; therefore, the Company does not present unaudited pro forma combined consolidated financial information.

ancotel Acquisition

On July 2, 2012 (the ancotel Acquisition Date), the Company acquired 100% of the issued and outstanding share capital of ancotel, a privately-owned company headquartered in Frankfurt, Germany, for cash consideration of approximately $85,714,000 (the ancotel Acquisition). ancotel operates one data center in Frankfurt and edge nodes in Hong Kong and London. ancotel will continue to operate under the ancotel trade name.

The Company included ancotel s results of operations from July 3, 2012 and the estimated fair value of assets acquired and liabilities assumed in its condensed consolidated balance sheets beginning July 2, 2012. The Company incurred acquisition costs of approximately $56,000 and $1,365,000, respectively, for the three and nine months ended September 30, 2012 related to the ancotel Acquisition.

Purchase Price Allocation

The ancotel Acquisition was accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the total purchase price was allocated to ancotel s net tangible and intangible assets based upon their fair value as of the ancotel Acquisition Date. Based upon the purchase price and the valuation of ancotel, the preliminary purchase price allocation was as follows (in thousands):

Cash and cash equivalents	$ 1,478
Accounts receivable	332
Other current assets	2,702
Property, plant and equipment	17,460
Goodwill	55,689
Intangible assets	42,781
Other non-current assets	381
Total assets acquired	120,823
Accounts payable and accrued expenses	(5,310)
Accrued property, plant and equipment	(1,216)
Current portion of loans payable	(2,548)
Capital leases and other financing obligations	(5,516)
Other current liabilities	(5,035)
Deferred tax liabilities	(13,280)
Other non-current liabilities	(2,204)

Net assets acquired	$ 85,714

The Company continues to evaluate certain assets and liabilities related to the ancotel Acquisition. Additional information, which existed as of the ancotel Acquisition Date but was unknown to the Company at that time, may become known to the Company during the remainder of the measurement period, a period

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

not to exceed 12 months from the ancotel Acquisition Date. Changes to the assets and liabilities recorded may result in a corresponding adjustment to goodwill.

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

Intangible assets	Fair value	Estimated useful lives (years)	Weighted-average estimated useful lives (years)
Customer contracts	$ 38,604	7	7.0
Trade names	4,177	5 - 10	9.4

The fair value of customer contracts was estimated by applying an income approach. The fair value was determined by calculating the present value of operating cash flows generated by existing customer relationships less costs to realize the revenue. The Company applied a discount rate of approximately 12.8%, which reflects the nature of the assets as it relates to the estimated future operating cash flows. Other significant assumptions used to estimate the fair value of the customer contracts include projected revenue growth, customer attrition rates and operating margins. The fair value of trade names were estimated using the income approach. The fair value measurements were based on significant inputs that are not observable in the market and thus represent Level 3 measurements as defined in the accounting standard for fair value measurements.

The Company determined the fair value of the loans payable assumed in the ancotel Acquisition by estimating ancotel s debt rating and reviewed market data with a similar debt rating and other characteristics of the debt, including the maturity date and security type. The book value of ancotel s loans payable approximated their fair value as of the Acquisition Date. During the three months ended September 30, 2012, the Company prepaid and terminated these loans payable.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and intangible assets acquired. The goodwill is not expected to be deductible for local tax purposes. Goodwill will not be amortized and will be tested for impairment at least annually. Goodwill recorded as a result of the ancotel Acquisition is attributable to the Company s EMEA reportable segment (see Note 14) and reporting unit (see Note 5).

For the three months ended September 30, 2012, ancotel recognized revenues of $5,527,000 and had $1,886,000 of net loss, which were included in the Company s condensed consolidated statements of operations. The ancotel Acquisition was not material to the Company s consolidated balance sheets and results of operations; therefore, the Company does not present unaudited pro forma combined consolidated financial information.

4. Discontinued Operations

In August 2012, the Company entered into an agreement to sell 16 of the Company s IBX data centers located throughout the United States (the IBX Data Centers Held-for-Sale) to an investment group including 365 Main, Crosslink Capital, Housatonic Partners and Brightwood Capital for net proceeds of $76,458,000 (the Divestiture). Nine of the 16 data centers are in markets that the Company will exit with the close of the Divestiture. Those markets include Buffalo, Cleveland, Detroit, Indianapolis, Nashville, Phoenix, Pittsburg, St. Louis and Tampa. The remaining seven data centers are in markets where the Company will retain a presence. Those markets include Chicago, Dallas, New York, Philadelphia, Seattle, Silicon Valley and the Washington D.C. metro area. After the close of the Divestiture, the investment group will run and manage the IBX Data Centers Held-for-Sale. Assets and liabilities held-for-sale, net, and operating results from its discontinued operations associated with the IBX Data Centers Held-for-Sale are attributable to the Company s Americas region. The Divestiture closed in November 2012 (see Note 16).

EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s assets and liabilities associated with the IBX Data Centers Held-for-Sale have been reclassified to assets and liabilities held-for-sale on the Company s condensed consolidated balance sheet as of September 30, 2012. Certain financial footnotes have also been updated to reflect the impact of the discontinued operations. The company s assets and liabilities held-for-sale, net, consisted of the following (in thousands):

	September 30, 2012
Assets:	
Accounts receivable, net	$ 2,075
Property, plant and equipment, net	51,457
Goodwill	8,320
Intangible assets, net	4,508
Deferred tax assets	2,001
Other current assets	233
Other assets	397
	$ 68,991
Liabilities:	
Accounts payable and accrued expenses	$ 2,072
Deferred tax liabilities	6,008
Other current liabilities	615
Assets retirement obligations	12,103
Other liabilities	1,947
	$ 22,745

The Company s condensed consolidated statements of operations have been reclassified to reflect its discontinued operations associated with the IBX Data Centers Held-for-Sale for all periods presented. The Company s operating results from its discontinued operations consisted of the following (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues	$ 8,826	$ 9,393	$ 26,796	$ 27,862
Cost of revenues	(6,585)	(8,429)	(22,469)	(25,721)
Operating expenses	(913)	(289)	(2,077)	(830)
Income taxes	(649)	(211)	(1,022)	(492)
Net income from discontinued operations	$ 679	$ 464	$ 1,228	$ 819

EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Balance Sheet Components

Cash, Cash Equivalents and Short-Term and Long-Term Investments

Cash, cash equivalents and short-term and long-term investments consisted of the following as of (in thousands):

	September 30, 2012	December 31, 2011
Cash and cash equivalents:		
Cash	$ 130,917	$ 74,101
Cash equivalents:		
Money markets	104,800	198,931
Certificates of deposit	3,970	4,500
Commercial paper		1,000
Corporate bonds		291
Total cash and cash equivalents	239,687	278,823
Marketable securities:		
U.S. government securities	121,572	573,277
U.S. government agencies securities	72,012	129,235
Certificates of deposit	57,635	24,472
Corporate bonds	27,749	64,308
Commercial paper	999	
Asset-backed securities	182	947
Foreign government securities		5,283
Total marketable securities	280,149	797,522
Total cash, cash equivalents and short-term and long-term investments	$ 519,836	$ 1,076,345

The following table summarizes the fair value and gross unrealized gains and losses related to the Company s short-term and long-term investments in marketable securities designated as available-for-sale securities as of (in thousands):

	September 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government securities	$ 121,528	$ 51	$ (7)	$ 121,572
U.S. government agencies securities	71,965	70	(23)	72,012
Certificates of deposit	57,623	14	(2)	57,635
Corporate bonds	27,721	35	(7)	27,749
Commercial paper	997	2		999
Asset-backed securities	178	4		182

Total	$ 280,012	$ 176	$ (39)	$ 280,149

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
U.S. government securities	$ 573,232	$ 91	$ (46)	$ 573,277
U.S. government agencies securities	129,159	104	(28)	129,235
Corporate bonds	64,364	51	(107)	64,308
Certificates of deposit	24,471	3	(2)	24,472
Foreign government securities	5,295		(12)	5,283
Asset-backed securities	890	57		947
Total	$ 797,411	$ 306	$ (195)	$ 797,522

As of September 30, 2012 and December 31, 2011, cash equivalents included investments which were readily convertible to cash and had original maturity dates of 90 days or less. The maturities of securities classified as short-term investments were one year or less as of September 30, 2012 and December 31, 2011. The maturities of securities classified as long-term investments were greater than one year and less than three years as of September 30, 2012 and December 31, 2011.

While certain marketable securities carry unrealized losses, the Company expects that it will receive both principal and interest according to the stated terms of each of the securities and that the decline in market value is primarily due to changes in the interest rate environment from the time the securities were purchased as compared to interest rates at September 30, 2012.

The following table summarizes the fair value and gross unrealized losses related to 33 available-for-sale securities with an aggregate cost basis of $53,753,000 aggregated by type of investment and length of time that individual securities have been in a continuous unrealized loss position, as of September 30, 2012 (in thousands):

	Securities in a loss position for less than 12 months		Securities in a loss position for more than 12 months	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
U.S. government securities	$ 25,131	$ (7)	$	$
U.S. government agencies securities	10,440	(19)	298	(4)
Certificates of deposit	10,477	(2)		
Corporate bonds	7,368	(7)		
	$ 53,416	$ (35)	$ 298	$ (4)

While the Company does not believe it holds investments that are other-than-temporarily impaired and believes that the Company s investments will mature at par as of September 30, 2012, the Company s investments are subject to the currently adverse market conditions. If market conditions were to deteriorate, the Company could sustain other-than-temporary impairments to its investment portfolio which could result in realized losses being recorded in interest income, net, or securities markets could become inactive which could affect the liquidity of the Company s investments.

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounts Receivable

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

	September 30, 2012	December 31, 2011
Accounts receivable	$ 305,202	$ 250,211
Unearned revenue	(117,816)	(106,519)
Allowance for doubtful accounts	(5,413)	(4,635)
	$ 181,973	$ 139,057

Trade accounts receivable are recorded at the invoiced amount and generally do not bear interest. The Company generally invoices its customers at the end of a calendar month for services to be provided the following month. Accordingly, 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.

Other Current Assets

Other current assets consisted of the following as of (in thousands):

	September 30, 2012	December 31, 2011
Deferred tax assets, net	$ 25,150	$ 42,743
Prepaid expenses	21,591	19,441
Restricted cash, current	10,161	88,279
Taxes receivables	6,649	24,313
Other receivables	1,448	2,999
Other current assets	4,749	4,381
	$ 69,748	$ 182,156

Property, Plant and Equipment

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

	September 30, 2012	December 31, 2011
IBX plant and machinery	$ 2,215,765	$ 1,833,834
Leasehold improvements	1,062,462	958,391
Buildings	727,350	509,359
IBX equipment	391,438	368,530

Site improvements	354,010	305,169
Computer equipment and software	154,935	138,147
Land	97,342	91,314
Furniture and fixtures	20,006	18,144
Construction in progress	273,211	330,780
	5,296,519	4,553,668
Less accumulated depreciation	(1,505,456)	(1,327,756)
	$ 3,791,063	$ 3,225,912

Leasehold improvements, IBX plant and machinery, computer equipment and software and buildings recorded under capital leases aggregated $190,944,000 and $132,245,000 as of September 30, 2012 and December 31, 2011, respectively. Amortization on the assets recorded under capital leases is included in

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

depreciation expense and accumulated depreciation on such assets totaled $41,987,000 and $33,790,000 as of September 30, 2012 and December 31, 2011, respectively.

Goodwill and Intangible Assets

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

	September 30, 2012	December 31, 2011
Goodwill:		
Americas	$ 483,680	$ 499,455
EMEA	417,349	347,018
Asia-Pacific	142,255	20,022
	$ 1,043,284	$ 866,495
Intangible assets:		
Intangible asset customer contracts	$ 236,030	$ 171,230
Intangible asset favorable leases	16,766	18,315
Intangible asset others	10,027	5,245
	262,823	194,790
Accumulated amortization	(62,175)	(46,155)
	$ 200,648	$ 148,635

Changes in the carrying amount of goodwill by geographic region are as follows (in thousands):

	Americas	EMEA	Asia-Pacific	Total
Balance at December 31, 2011	$ 499,455	$ 347,018	$ 20,022	$ 866,495
Asia Tone Acquisition (see Note 3)			121,054	121,054
ancotel Acquisition (see Note 3)		55,689		55,689
Reclassified to assets held-for-sale (see Note 4)	(8,320)			(8,320)
Impact of foreign currency exchange	(7,455)	14,642	1,179	8,366
Balance at September 30, 2012	$ 483,680	$ 417,349	$ 142,255	$ 1,043,284

Changes in the gross carrying value of intangible assets by geographic region are as follows (in thousands):

	Americas	EMEA	Asia-Pacific	Total

Balance at December 31, 2011	$ 134,674	$ 60,116	$	$ 194,790
Asia Tone Acquisition (see Note 3)			29,155	29,155
ancotel Acquisition (see Note 3)		42,781		42,781
Reclassified to assets held-for-sale (see Note 4)	(5,913)			(5,913)
Impact of foreign currency exchange	(903)	2,823	90	2,010
Balance at September 30, 2012	$ 127,858	$ 105,720	$ 29,245	$ 262,823

The Company s goodwill and intangible assets in EMEA, denominated in British pounds and Euros, goodwill and intangible assets in Asia-Pacific, denominated in Singapore dollars, Hong Kong dollars and Chinese Yuan and certain goodwill and intangibles in Americas, denominated in Canadian dollars and Brazilian reais, are subject to foreign currency fluctuations. The Company s foreign currency translation gains and losses, including goodwill and intangibles, are a component of other comprehensive income and loss.

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three and nine months ended September 30, 2012, the Company recorded amortization expense of $6,863,000 and $16,452,000, respectively, associated with its intangible assets. For the three and nine months ended September 30, 2011, the Company recorded amortization expense of $4,962,000 and $13,963,000, respectively, associated with its intangible assets. The Company s estimated future amortization expense related to these intangibles is as follows (in thousands):

Year ending:	
2012 (three months remaining)	$ 6,876
2013	27,456
2014	27,052
2015	26,546
2016	26,004
Thereafter	86,714
Total	$ 200,648

Other Assets

Other assets consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Debt issuance costs, net	$ 38,266	$ 41,320
Prepaid expenses, non-current	22,963	54,118
Deposits	21,488	24,304
Deferred tax assets, net	16,688	16,980
Restricted cash, non-current	7,953	4,382
Other assets, non-current	8,069	5,620
	$ 115,427	$ 146,724

Accounts Payable and Accrued Expenses

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

	September 30, 2012	December 31, 2011
Accounts payable	$ 26,387	$ 23,268
Accrued compensation and benefits	68,730	66,330
Accrued taxes	52,429	43,539
Accrued interest	28,792	50,916
Accrued utilities and security	23,306	21,456
Accrued professional fees	5,660	4,783

Accrued repairs and maintenance		3,363		3,458
Accrued other		36,045		15,293
	$	244,712	$	229,043

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Current Liabilities

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

	September 30, 2012	December 31, 2011
Deferred installation revenue	$ 38,482	$ 35,700
Customer deposits	17,330	13,669
Deferred recurring revenue	9,063	2,918
Accrued restructuring charges	2,379	2,565
Deferred rent	1,569	1,582
Asset retirement obligations	85	344
Other current liabilities	580	518
	$ 69,488	$ 57,296

Other Liabilities

Other liabilities consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
Asset retirement obligations, non-current	$ 61,549	$ 56,243
Deferred rent, non-current	45,438	48,372
Deferred installation revenue, non-current	26,014	24,281
Accrued taxes, non-current	19,963	22,226
Deferred tax liabilities, net	6,643	117,995
Customer deposits, non-current	4,143	4,209
Deferred recurring revenue, non-current	4,141	5,472
Accrued restructuring charges, non-current	3,802	5,255
Other liabilities	2,634	2,371
	$ 174,327	$ 286,424

The following table summarizes the activity of the Company s asset retirement obligation liability, which includes both current and non-current portions, (in thousands):

Balance at December 31, 2011	$ 56,587
Additions (1)	13,644
Accretion expense	3,089
Reclassified to liabilities held-for-sale (see Note 4)	(12,103)
Impact of foreign currency exchange	417

Balance at September 30, 2012	$ 61,634

(1) Includes $5,795 assumed in connection with the ancotel Acquisition and the Asia Tone Acquisition.

The Company currently leases the majority of its IBX data centers and certain equipment under non-cancelable operating lease agreements expiring through 2035. The IBX data center 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 some rent expense abatement periods for certain leases 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.

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Derivatives

Other Derivatives not Designated as Hedging

The Company uses foreign currency forward contracts to manage the foreign exchange risk associated with certain foreign currency-denominated assets and liabilities. As a result of foreign currency fluctuations, the U.S. dollar equivalent values of the foreign currency-denominated assets and liabilities change. Foreign currency forward contracts represent agreements to exchange the currency of one country for the currency of another country at an agreed-upon price on an agreed-upon settlement date.

The Company has not designated the foreign currency forward contracts as hedging instruments under the accounting standard for derivatives and hedging. Gains and losses on these contracts are included in other income (expense), net, along with those foreign currency gains and losses of the related foreign currency-denominated assets and liabilities associated with these foreign currency forward contracts. The Company entered into various foreign currency forward contracts during the three and nine months ended September 30, 2012 and 2011.

The following table sets forth the Company s net gain (loss), which is reflected in other income (expense) on the accompanying condensed consolidated statement of operations, in connection with its foreign currency forward contracts (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net gain (loss)	$ 541	$ 1,397	$ (870)	$ 163

7. Fair Value Measurements

The Company s financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2012 were as follows (in thousands):

	Fair Value at September 30, 2012	Fair value measurement using	
		Level 1	Level 2
Assets:			
Cash	$ 130,917	$ 130,917	$
U.S. government securities	121,572		121,572
Money market and deposit accounts	104,800	104,800	
U.S. government agency securities	72,012		72,012
Certificates of deposit	61,605		61,605
Corporate bonds	27,749		27,749
Commercial paper	999		999
Asset-backed securities	182		182
Foreign currency forward contracts (1)	20		20
	$ 519,856	$ 235,717	$ 284,139

Liabilities:			
Foreign currency forward contracts (1)	$ 6	$	$ 6

(1) Amounts are included within other current assets or other current liabilities in the Company s accompanying condensed consolidated balance sheet.

There were no financial assets or liabilities classified within Level 3 of the fair value hierarchy as of September 30, 2012.

EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Valuation Methods

Fair value estimates are made as of a specific point in time based on estimates using present value or other valuation techniques. These techniques involve uncertainties and are affected by the assumptions used and the judgments made regarding risk characteristics of various financial instruments, discount rates, estimates of future cash flows, future expected loss experience and other factors.

Cash, Cash Equivalents and Investments. The fair value of the Company s investments in money market funds approximates their face value. Such instruments are included in cash equivalents. The Company s money market funds are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices for identical instruments in active markets. The fair value of the Company s other investments approximate their face value. These investments include certificates of deposit and available-for-sale debt investments related to the Company s investments in the securities of other public companies, governmental units and other agencies. The fair value of these investments is based on the quoted market price of the underlying shares. Such instruments are classified within Level 2 of the fair value hierarchy. The Company obtains the fair values of its Level 2 investments based upon fair values obtained from its custody bank and third-party valuation services. The custody bank and third-party valuation services independently use professional pricing services to gather pricing data which may include quoted market prices for identical or comparable instruments, or inputs other than quoted prices that are observable either directly or indirectly. The Company is responsible for its consolidated financial statements and underlying estimates.

The Company determined that the major security types held as of September 30, 2012 were primarily cash and money market funds, U.S. government and agency securities, corporate bonds, certificate of deposits, commercial paper and asset-backed securities. The Company uses the specific identification method in computing realized gains or losses. Short-term and long-term investments are classified as available-for-sale and are carried at fair value with unrealized gains and losses reported in stockholders equity as a component of other comprehensive income or loss, net of any related tax effect. The Company reviews its investment portfolio quarterly to determine if any securities may be other-than-temporarily impaired due to increased credit risk, changes in industry or sector of a certain instrument or ratings downgrades over an extended period of time.

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

During the nine months ended September 30, 2012, the Company did not have any nonfinancial assets or liabilities measured at fair value on a recurring basis.

8. Related Party Transactions

The Company has several significant stockholders and other related parties that are also customers and/or vendors. The Company s activity of related party transactions was as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Revenues	$ 10,656	$ 6,608	$ 25,588	$ 19,388
Costs and services	654	915	1,682	2,709

EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of September 30, 2012	2011
Accounts receivable	$ 7,034	$ 5,271
Accounts payable	282	461

A member of the Company s board of directors is affiliated with Crosslink Capital. Both the board member and Crosslink Capital are investors in the investment group that the Company entered into an agreement with to sell 16 of the Company s IBX data centers located throughout the United States (see Note 4).

In connection with the acquisition of ALOG, the Company acquired a lease for one of the Brazilian IBX data centers in which the lessor is a member of ALOG management. This lease contains an option to purchase the underlying property for fair market value on the date of purchase. The Company accounts for this lease as a financing obligation as a result of structural building work pursuant to the accounting standard for lessee s involvement in asset construction. As of September 30, 2012, the Company had a financing obligation liability totaling approximately $4,313,000 related to this lease on its condensed consolidated balance sheet. This amount is considered a related party liability, which is not reflected in the related party data presented above.

9. Leases

Dallas IBX Leases

In May 2012, the Company entered into a lease amendment for additional IBX space in one of its IBX data centers in the Dallas metro area. The original leases associated with this space were accounted for as operating leases (the Dallas IBX Leases). As a result of the amendment, the Dallas IBX Leases are accounted for as capital leases. Monthly payments under the Dallas IBX Leases will be made through December 2029 at an effective interest rate of 7.21%. The total cumulative rent obligation under the Dallas IBX Leases is approximately $105,595,000. In June 2012, the Company recorded a building asset totaling approximately $53,117,000, net of previously recorded deferred rent of approximately $4,472,000, and a corresponding capital lease obligation liability totaling approximately $57,530,000 associated with the Dallas IBX Leases.

Capital Lease and Other Financing Obligations

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

	Capital lease obligations	Other financing obligations	Total
2012 (three months remaining)	$ 6,513	$ 5,985	$ 12,498
2013	25,557	25,873	51,430
2014	26,057	30,191	56,248
2015	26,294	32,951	59,245
2016	25,079	34,077	59,156
Thereafter	218,349	265,078	483,427
Total minimum lease payments	327,849	394,155	722,004
Plus amount representing residual property value	(51)	230,282	230,231
Less amount representing interest	(127,333)	(322,181)	(449,514)
Present value of net minimum lease payments	200,465	302,256	502,721
Less current portion	(10,606)	(4,247)	(14,853)

	$ 189,859	$ 298,009	$ 487,868

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. Debt Facilities

Loans Payable

The Company s loans payable consisted of the following (in thousands):

	September 30, 2012	December 31, 2011
U.S. term loan	$ 190,000	$
ALOG financing	49,349	
Paris 4 IBX financing	6,132	52,104
Asia Tone loans payable	3,200	
Asia-Pacific financing		193,843
ALOG loans payable		10,288
	248,681	256,235
Less current portion	(49,332)	(87,440)
	$ 199,349	$ 168,795

U.S. Financing

In June 2012, the Company entered into a credit agreement with a group of lenders for a $750,000,000 credit facility (the U.S. Financing), comprised of a $200,000,000 term loan facility (the U.S. Term Loan) and a $550,000,000 multicurrency revolving credit facility (the U.S. Revolving Credit Line). The U.S. Financing contains several financial covenants with which the Company must comply on a quarterly basis, including a maximum senior leverage ratio covenant, a minimum fixed charge coverage ratio covenant and a minimum tangible net worth covenant. The U.S. Financing is guaranteed by certain of the Company s domestic subsidiaries and is secured by the Company s and guarantors accounts receivable as well as pledges of the equity interests of certain of the Company s direct and indirect subsidiaries. The U.S. Term Loan and U.S. Revolving Credit Line both have a five-year term, subject to the satisfaction of certain conditions with respect to the Company s outstanding convertible subordinated notes. The Company is required to repay the principal balance of the U.S. Term Loan in equal quarterly installments over the term. The U.S. Term Loan bears interest at a rate based on LIBOR or, at the option of the Company, the Base Rate (defined as the highest of (a) the Federal Funds Rate plus 1/2 of 1%, (b) the Bank of America prime rate and (c) one-month LIBOR plus 1.00%) plus, in either case, a margin that varies as a function of the Company s senior leverage ratio in the range of 1.25%-2.00% per annum if the Company elects to use the LIBOR index and in the range of 0.25%-1.00% per annum if the Company elects to use the Base Rate index. In July 2012, the Company fully utilized the U.S. Term Loan and used the funds to prepay the outstanding balance of and terminate the Asia-Pacific Financing (see below). As of September 30, 2012, the effective interest rate under the U.S. Term Loan was 2.51% per annum.

The U.S. Revolving Credit Line allows the Company to borrow, repay and reborrow over the term. The U.S. Revolving Credit Line provides a sublimit for the issuance of letters of credit of up to $150,000,000 at any one time. The Company may use the U.S. Revolving Credit Line for working capital, capital expenditures, issuance of letters of credit, and other general corporate purposes. Borrowings under the U.S. Revolving Credit Line bear interest at a rate based on LIBOR or, at the option of the Company, the Base Rate (defined above) plus, in either case, a margin that varies as a function of the Company s senior leverage ratio in the range of 0.95%-1.60% per annum if the Company elects to use the LIBOR index and in the range of 0.00%-0.60% per annum if the Company elects to use the Base Rate index. The Company is required to pay a quarterly letter of credit fee on the face amount of each letter of credit, which fee is based on the same margin that applies from time to time to LIBOR-indexed borrowings under the U.S. Revolving Credit Line. The Company is also required to pay a quarterly facility fee ranging from 0.30%-0.40% per annum of the U.S. Revolving Credit Line (regardless of the amount utilized), which fee also varies as a function of the Company s senior leverage ratio. In June 2012, the outstanding letters of credit issued under the Senior Revolving Credit Line (see below) were

assumed under the U.S. Revolving Credit Line and the Senior Revolving Credit Line was terminated. As of September 30, 2012, the Company had 13

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

irrevocable letters of credit totaling $21,502,000 issued and outstanding under the U.S. Revolving Credit Line. As a result, the amount available to the Company to borrow under the U.S. Revolving Credit Line was $528,498,000 as of September 30, 2012. As of September 30, 2012, the Company was in compliance with all covenants of the U.S. Financing.

Debt issuance costs related to the U.S. Financing, net of amortization, were $8,361,000 as of September 30, 2012.

Paris 4 IBX Financing

During the nine months ended September 30, 2012, construction activity increased the Paris 4 IBX financing liability by $33,653,000 and the Company made payments of approximately $88,824,000 from the restricted cash account under the Paris 4 IBX financing. As a result, the Paris 4 IBX financing liability and the Company s current restricted cash balance have decreased (refer to Other Current Assets in Note 5).

ALOG Financing

In June 2012, ALOG completed a 100,000,000 Brazilian real credit facility agreement, or approximately $49,349,000 (the ALOG Financing). The ALOG Financing has a five-year term with semi-annual principal payments beginning in the third year of its term and quarterly interest payments during the entire term. The ALOG Financing bears an interest rate of 2.75% above the local borrowing rate. The ALOG Financing contains financial covenants, which ALOG must comply with annually, consisting of a leverage ratio and a fixed charge coverage ratio. The ALOG Financing is not guaranteed by ALOG or the Company. The ALOG Financing is not secured by ALOG s or the Company s assets. The ALOG Financing has a final maturity date of June 2017. During the three months ended September 30, 2012, ALOG fully utilized the ALOG Financing and used a portion of the funds to prepay and terminate ALOG loans payable outstanding. As of September 30, 2012, the effective interest rate under the ALOG Financing was 10.72% per annum.

Asia Tone Loans Payable

In July 2012, the Company assumed approximately $20,661,000 of debt from the Asia Tone Acquisition (the Asia Tone Loans Payable). During the three months ended September 30, 2012, the Company prepaid and terminated a total of approximately $17,461,000 of the Asia Tone Loans Payable. As of September 30, 2012, the remaining Asia Tone Loans Payable outstanding had an effective interest rate of 2.40% per annum.

Senior Revolving Credit Line

In September 2011, the Company entered into a $150,000,000 senior unsecured revolving credit facility (the Senior Revolving Credit Line) with a group of lenders (the Lenders). The Company was able to use the Senior Revolving Credit Line for working capital, capital expenditures, issuance of letters of credit, general corporate purposes and to refinance a portion of the Company s existing debt obligations. The Senior Revolving Credit Line had a five-year term and allowed the Company to borrow, repay and re-borrow over the term. The Senior Revolving Credit Line provided a sublimit for the issuance of letters of credit of up to $100,000,000 and a sublimit for swing line borrowings of up to $25,000,000. Borrowings under the Senior Revolving Credit Line carried an interest rate of US$ LIBOR plus an applicable margin ranging from 1.25% - 1.75% per annum, which varied as a function of the Company s senior leverage ratio. The Company was also subject to a quarterly non-utilization fee ranging from 0.30% - 0.40% per annum, the pricing of which would also vary as a function of the Company s senior leverage ratio. Additionally, the Company was able to increase the size of the Senior Revolving Credit Line at its election by up to $100,000,000, subject to approval by the Lenders and based on current market conditions. The Senior Revolving Credit Line contained several financial covenants, which the Company had to comply with quarterly, including a leverage ratio, fixed charge coverage ratio and a minimum net worth covenant. In June 2012, the Senior Revolving Credit Line was replaced by the U.S. Revolving Credit Line under the U.S. Financing (see above). As a result, issued and outstanding letters of credit were all transferred into the U.S. Revolving Credit Line and the Senior Revolving Credit Line was terminated.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Asia-Pacific Financing

In May 2010, five wholly-owned subsidiaries of the Company, located in Australia, Hong Kong, Japan and Singapore, completed a multi-currency credit facility agreement for approximately $223,636,000 (the Asia-Pacific Financing), comprising 79,153,000 Australian dollars, 370,433,000 Hong Kong dollars, 99,434,000 Singapore dollars and 1,513,400,000 Japanese yen. The Asia-Pacific Financing had a five-year term with semi-annual principal payments and quarterly debt service and consisted of two tranches: (i) Tranche A totaling approximately $90,810,000 was available for immediate drawing upon satisfaction of certain conditions precedent and (ii) Tranche B totaling approximately $132,826,000 was available for drawing in Australian, Hong Kong and Singapore dollars only for up to 24 months following the effective date of the Asia-Pacific Financing. The Asia Pacific Financing bore an interest rate of 3.50% above the local borrowing rates for the first 12 months and interest rates between 2.50%-3.50% above the local borrowing rates thereafter, depending on the leverage ratio within these five subsidiaries of the Company. The Asia-Pacific Financing contained four financial covenants, which the Company and its five subsidiaries had to comply with quarterly, consisting of two leverage ratios, an interest coverage ratio and a debt service ratio. The Asia-Pacific Financing was guaranteed by the parent, Equinix, Inc., and was secured by most of the Company s five subsidiaries assets and share pledges. As of December 31, 2011, the Company s five subsidiaries had fully utilized Tranche A and Tranche B under the Asia-Pacific Financing. The loans payable under the Asia-Pacific Financing had a final maturity date of March 2015. In July 2012, the Company fully repaid and terminated the Asia-Pacific Financing. As a result, the Company wrote off outstanding unamortized debt issuance costs associated with the Asia-Pacific Financing and recorded a loss on debt extinguishment of $5,204,000.

Convertible Debt

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

	September 30, 2012	December 31, 2011
3.00% Convertible Subordinated Notes	$ 395,986	$ 395,986
4.75% Convertible Subordinated Notes	373,730	373,750
2.50% Convertible Subordinated Notes		250,000
	769,716	1,019,736
Less amount representing debt discount	(64,589)	(78,652)
	705,127	941,084
Less current portion		(246,315)
	$ 705,127	$ 694,769

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). Holders of the 2.50% Convertible Subordinated Notes were eligible to convert their notes at any time on or after March 15, 2012 through the close of business on the business day immediately preceding the maturity date. Upon conversion, holders would 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 had the right at any time to 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. Upon conversion, due to the conversion formulas associated with the 2.50% Convertible Subordinated Notes, if the Company s stock was trading at levels exceeding $112.03 per share, and if the Company elected 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

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conversion of the 2.50% Convertible Subordinated Notes exceed 11.6036 per $1,000 principal amount of 2.50% 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.

In April 2012, virtually all of the holders of the 2.50% Convertible Subordinated Notes converted their notes. The Company settled the $250,000,000 in aggregate principal amount of the 2.50% Convertible Subordinated Notes, plus accrued interest, in $253,132,000 of cash and 622,867 shares of the Company s common stock that were issued from its treasury stock. The total value of the shares of the Company s common stock issued by the Company was $95,915,000, which is based on the closing price of the Company s common stock on April 16, 2012, the date the shares were issued. The number of shares issued to the holders of the 2.50% Convertible Subordinated Notes was based on the volume weighted average price per share of the Company s common stock for each of the 10 consecutive trading days during the period beginning on the 12th scheduled trading day immediately preceding the maturity date.

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). 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 7.436 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, 2012, had the holders of the 3.00% Convertible Subordinated Notes converted their notes, the 3.00% Convertible Subordinated Notes would have been convertible into 3,510,021 shares of the Company s common stock.

4.75% Convertible Subordinated Notes

In June 2009, the Company issued $373,750,000 aggregate principal amount of 4.75% Convertible Subordinated Notes due June 15, 2016 (the 4.75% Convertible Subordinated Notes). 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 4.75% Convertible Subordinated Notes to satisfy its obligation in cash up to 100% of the principal amount of the 4.75% 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. Upon conversion, if the Company elects to pay a sufficiently large portion of the conversion obligation in cash, additional consideration beyond the $373,750,000 of gross proceeds received will be required.

The initial conversion rate is 11.8599 shares of common stock per $1,000 principal amount of 4.75% Convertible Subordinated Notes, subject to adjustment. This represents an initial conversion price of approximately $84.32 per share of common stock. Holders of the 4.75% 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 December 31, 2009, 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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

greater than 130% of the conversion price per share of common stock on such last trading day, which was $109.62 per share;

subject to certain exceptions, during the five business day period following any 10 consecutive trading day period in which the trading price of the 4.75% 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;

upon the occurrence of specified corporate transactions described in the 4.75% Convertible Subordinated Notes 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; or

at any time on or after March 15, 2016.

Holders of the 4.75% Convertible Subordinated Notes were eligible to convert their notes during the three months ended September 30, 2012, since 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 three months ended June 30, 2012, was greater than 130% of the conversion price per share of common stock on such last trading day. As of September 30, 2012, had the holders of the 4.75% Convertible Subordinated Notes converted their notes, the 4.75% Convertible Subordinated Notes would have been convertible into a maximum of 4,432,407 shares of the Company s common stock.

Maturities of Debt Facilities

The following table sets forth maturities of the Company s debt, including loans payable, senior notes and convertible debt, as of September 30, 2012 (in thousands):

Year ending:	
2012 (three months remaining)	$ 13,200
2013	46,132
2014	450,086
2015	54,100
2016	363,240
Thereafter	1,527,050
	$ 2,453,808

Fair Value of Debt Facilities

The following table sets forth the estimated fair values of the Company s loans payable, senior notes and convertible debt, including current maturities, as of (in thousands):

	September 30, 2012	December 31, 2011
Loans payable	$ 248,366	$ 269,451
Senior notes	1,674,375	1,612,287

Convertible debt	1,148,602	1,057,801

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Interest Charges

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Interest expense	$ 50,207	$ 51,114	$ 149,812	$ 126,152
Interest capitalized	6,315	3,922	19,630	10,019
Interest charges incurred	$ 56,522	$ 55,036	$ 169,442	$ 136,171

11. Redeemable Non-Controlling Interests

The following table provides a summary of the activities of the Company s redeemable non-controlling interests, which all relate to the Company s operations in Brazil (in thousands):

Balance at December 31, 2011	$ 67,601
Net income attributable to redeemable non-controlling interests	1,843
Other comprehensive loss attributable to redeemable non-controlling interests	(3,155)
Change in redemption value of non-controlling interests	12,932
Impact of foreign currency exchange	(1,030)
Balance at September 30, 2012	$ 78,191

12. Commitments and Contingencies

Legal Matters

Pihana Litigation

On August 22, 2008, a complaint was filed against Equinix, certain former officers and directors of Pihana Pacific, Inc. (Pihana), certain investors in Pihana, and others. The lawsuit was filed in the First Circuit Court of the State of Hawai i, and arises out of December 2002 agreements pursuant to which Equinix merged Pihana and i-STT (a subsidiary of Singapore Technologies Telemedia Pte Ltd) into the Internet exchange services business of Equinix. Plaintiffs, who were allegedly holders of Pihana common stock, allege that their rights as shareholders were violated, and the transaction was effectuated improperly, by Pihana s majority shareholders, officers and directors, with the alleged assistance of Equinix and others. Among other things, plaintiffs contend that they effectively had a right to block the transaction, that this supposed right was disregarded, and that they improperly received no consideration when the deal was completed. The complaint seeks to recover unspecified punitive damages, equitable relief, fees and costs, and compensatory damages in an amount that plaintiffs allegedly believe may be all or a substantial portion of the approximately $725,000,000 value of Equinix held by Defendants (a group that includes more than 30 individuals and entities). An amended complaint, which added new plaintiffs (other alleged holders of Pihana common stock) but is otherwise substantially similar to the original pleading, was filed on September 29, 2008 (the Amended Complaint). On October 13, 2008, a complaint was filed in a separate action by another purported holder of Pihana common stock, naming the same defendants and asserting substantially similar allegations as the August 22, 2008 and September 29, 2008 pleadings. On December 12, 2008, the Court entered a stipulated order, which

consolidated the two actions under one case number and set January 22, 2009 as the last day for Defendants to move to dismiss or otherwise respond to the Amended Complaint, the operative complaint in this case. On January 22, 2009, motions to dismiss the Amended Complaint were filed by Equinix and other Defendants. On April 24, 2009, plaintiffs filed a Second Amended Complaint (SAC) to correct the naming of certain parties. The SAC is otherwise substantively identical to the Amended Complaint, and all motions to dismiss the Amended Complaint have been treated as responsive to the SAC. On September 1, 2009, the Court heard Defendants motions to dismiss the SAC and ruled at the hearing that all claims against all Defendants are time-barred. The Court also considered

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

whether there were further independent grounds for dismissing the claims, and supplemental briefing was submitted with respect to claims against one defendant and plaintiffs renewed request for further leave to amend. On March 23, 2010, the Court entered final Orders granting the motions to dismiss as to all Defendants and issued a minute Order denying plaintiffs renewed request for further leave to amend. On May 21, 2010, plaintiffs filed a Notice of Appeal. In January 2011, one group of co-defendants (Morgan Stanley and certain persons and entities affiliated with it) entered into a separate settlement with plaintiffs. The Trial Court determined that the settlement was made in good faith in accordance with Hawai i statutory law, and certain non-settling defendants (including Equinix) filed an appeal from that order before the Intermediate Court of Appeals. That appeal was stayed pending resolution of plaintiffs appeal before the Hawai i Supreme Court. In August 2011, another group of co-defendants (UBS AG and UBS Capital Asia Pacific Limited Fund) entered into a separate settlement with plaintiffs. The parties stipulated that the ultimate disposition of the Morgan Stanley good faith determination would apply to the UBS settlement. In December 2011, the parties reached agreement in principle on a global settlement which provides, among other things, that all claims and proceedings against all defendants will be dismissed with prejudice. On June 29, 2012, the Court granted the parties motion for determination of good faith settlement and the parties signed stipulations for dismissal. On July 10, 2012, the Court entered the order granting the parties motion for determination of good faith settlement. On July 23, 2012, the parties filed a stipulation and request for dismissal in the Hawai i Supreme Court, which granted an order approving the stipulation and dismissed the case with prejudice on August 8, 2012.

Alleged Class Action and Shareholder Derivative Actions

On March 4, 2011, an alleged class action entitled Cement Masons & Plasterers Joint Pension Trust v. Equinix, Inc., et al., No. CV-11-1016-SC, was filed in the United States District Court for the Northern District of California, against Equinix and two of its officers. The suit asserts purported claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 for allegedly misleading statements regarding the Company s business and financial results. The suit is purportedly brought on behalf of purchasers of the Company s common stock between July 29, 2010 and October 5, 2010, and seeks compensatory damages, fees and costs. Defendants filed a motion to dismiss on November 7, 2011. On March 2, 2012, the Court granted defendants motion to dismiss without prejudice and gave plaintiffs thirty days in which to amend their complaint. Pursuant to stipulation and order of the court entered on March 16, 2012, the parties agreed that plaintiffs would have up to and through May 2, 2012 to file a Second Amended Complaint. On May 2, 2012 plaintiffs filed a Second Amended Complaint asserting the same basic allegations as in the prior complaint. On June 15, 2012, defendants moved to dismiss the Second Amended Complaint. On September 19, 2012, the Court took the hearing on defendants motion to dismiss the Second Amended Complaint off calendar and notified the parties that it would make its decision on the pleadings. Subsequently, on September 24, 2012 the Court requested the parties submit supplemental briefing on or before October 9, 2012. The supplemental briefing was submitted on October 9, 2012.

On March 8, 2011, an alleged shareholder derivative action entitled Rikos v. Equinix, Inc., et al., No. CGC-11-508940, was filed in California Superior Court, County of San Francisco, purportedly on behalf of Equinix, and naming Equinix (as a nominal defendant), the members of its board of directors, and two of its officers as defendants. The suit is based on allegations similar to those in the federal securities class action and asserts causes of action against the individual defendants for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment. By agreement and order of the court, this case has been temporarily stayed pending proceedings in the class action, and, pursuant to that agreement, defendants need not respond to the complaint at this time.

On May 20, 2011, an alleged shareholder derivative action entitled Stopa v. Clontz, et al., No. CV-11-2467-SC was filed in the United States District Court for the Northern District of California, purportedly on behalf of Equinix, naming Equinix (as a nominal defendant) and the members of its board of directors as defendants. The suit is based on allegations similar to those in the federal securities class action and the state court derivative action, and asserts causes of action against the individual defendants for breach of fiduciary duty, unjust enrichment, abuse of control, gross mismanagement and waste of corporate assets. On June 10, 2011, the Court signed an order relating this case to the federal securities class action. Plaintiffs filed an amended complaint on December 14, 2011. By agreement and order of the court, this

EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

case has been temporarily stayed pending proceedings in the class action and, pursuant to that agreement, defendants need not respond to the complaint at this time.

Due to the inherent uncertainties of litigation, the Company cannot accurately predict the ultimate outcome of the matter. 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 believes that while an unfavorable outcome to this litigation is reasonably possible, a range of potential loss cannot be determined at this time. The Company has not accrued any amounts in connection with this legal matter as of September 30, 2012 as the Company concluded that an unfavorable outcome is not probable.

Other Purchase Commitments

Primarily as a result of the Company s various IBX expansion projects, as of September 30, 2012, the Company was contractually committed for $90,341,000 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, 2012, such as commitments to purchase power in select locations through the remainder of 2012 and thereafter, and other open purchase orders for goods or services to be delivered or provided during the remainder of 2012 and thereafter. Such other miscellaneous purchase commitments totaled $259,626,000 as of September 30, 2012.

13. Stockholders Equity

Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, net of tax, are as follows (in thousands):

	Balance as of December 31, 2011	Net change	Balance as of September 30, 2012
Foreign currency translation loss	$ (150,872)	$ 26,887	$ (123,985)
Unrealized gain (loss) on available for sale securities	64	14	78
Other comprehensive loss attributable to redeemable non-controlling interests	7,110	3,155	10,265
	$ (143,698)	$ 30,056	$ (113,642)

Changes in foreign currencies can have a significant impact to the Company s consolidated balance sheets (as evidenced above in the Company s foreign currency translation gain or loss), as well as its consolidated results of operations, as amounts in foreign currencies are generally translating into more U.S. dollars when the U.S. dollar weakens and fewer U.S. dollars when the U.S. dollar strengthens. During the nine months ended September 30, 2012, the U.S. dollar was generally stronger relative to certain of the currencies of the foreign countries in which the Company operates. This overall strength of the U.S. dollar had an overall negative impact on the Company s consolidated results of operations because the foreign currencies are generally translating into less U.S. dollars. This also impacted the Company s condensed consolidated balance sheets, as amounts denominated in foreign currencies are generally translating into less U.S. dollars. In future periods, the volatility of the U.S. dollar as compared to the other currencies in which the Company operates could have a significant impact on its consolidated financial position and results of operations including the amount of revenue that the Company reports in future periods.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Treasury Stock

During the nine months ended September 30, 2012, the Company repurchased a total of 131,489 shares of its common stock in the open market at an average price of $101.64 per share for total consideration of $13,364,000 under a share repurchase program that was approved by the Company s Board of Directors in November 2011. As of September 30, 2012, the Company may purchase up to an additional $149,970,000 in value of the Company s common stock through December 31, 2012 under this share repurchase program.

During the nine months ended September 30, 2012, the Company re-issued a total of 637,852 shares of its treasury stock with a total value of $63,323,000, primarily related to the settlement of the 2.50% Convertible Subordinated Notes (see Note 10).

Stock-Based Compensation

In February and March 2012, the Compensation Committee and the Stock Award Committee of the Company s Board of Directors approved the issuance of an aggregate of 661,659 shares of restricted stock units to certain employees, including executive officers, pursuant to the 2000 Equity Incentive Plan as part of the Company s annual refresh program. These equity awards are subject to vesting provisions and have a weighted-average grant date fair value of $135.61 and a weighted-average requisite service period of 3.25 years.

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Cost of revenues	$ 1,726	$ 1,468	$ 4,577	$ 4,119
Sales and marketing	4,795	4,153	13,505	10,629
General and administrative	15,916	13,481	43,824	38,014
	$ 22,437	$ 19,102	$ 61,906	$ 52,762

14. Segment Information

While the Company has a single line of business, which is the design, build-out and operation of IBX data centers, it has determined that it has three reportable segments comprised of its Americas, EMEA and Asia-Pacific geographic regions. The Company s chief operating decision-maker evaluates performance, makes operating decisions and allocates resources based on the Company s revenue and adjusted EBITDA performance both on a consolidated basis and based on these three geographic regions.

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The Company provides the following segment disclosures related to its continuing operations as follows (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Total revenues:				
Americas	$ 293,881	$ 259,461	$ 861,131	$ 727,408
EMEA	111,958	92,324	315,991	262,974
Asia-Pacific	82,891	56,423	212,102	157,286
	$ 488,730	$ 408,208	$ 1,389,224	$ 1,147,668
Total depreciation and amortization:				
Americas	$ 59,986	$ 53,981	$ 174,077	$ 155,845
EMEA	21,876	19,187	57,311	54,223
Asia-Pacific	22,675	14,013	54,615	33,494
	$ 104,537	$ 87,181	$ 286,003	$ 243,562
Income from continuing operations:				
Americas	$ 63,740	$ 50,984	$ 191,978	$ 146,739
EMEA	20,565	16,305	70,806	41,954
Asia-Pacific	11,564	10,152	35,927	34,283
	$ 95,869	$ 77,441	$ 298,711	$ 222,976
Income from continuing operations before income taxes:				
Americas	$ 16,216	$ 6,366	$ 51,436	$ 33,565
EMEA	21,950	13,325	73,197	38,561
Asia-Pacific	3,853	5,621	20,279	27,662
	$ 42,019	$ 25,312	$ 144,912	$ 99,788
Capital expenditures:				
Americas	$ 95,744	$ 52,849	$ 278,488	$ 176,575 (1)
EMEA	135,145 (2)	33,475	217,686 (2)	172,098
Asia-Pacific	254,263 (3)	45,201	330,952 (3)	212,789
	$ 485,152	$ 131,525	$ 827,126	$ 561,462

(1) Includes the purchase price for the ALOG Acquisition, net of cash acquired, which totaled $41,954.
(2) Includes the purchase price for the ancotel Acquisition, net of cash acquired, which totaled $84,236.

(3) Includes the purchase price for the Asia Tone Acquisition, net of cash acquired, which totaled $188,798.

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

	September 30, 2012	December 31, 2011
Americas	$ 2,049,118	$ 1,899,769
EMEA	949,448	764,885
Asia-Pacific	792,497	561,258
	$ 3,791,063	$ 3,225,912

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Colocation	$ 367,728	$ 306,021	$ 1,049,940	$ 874,271
Interconnection	70,681	57,032	198,598	164,438
Managed infrastructure	23,638	24,349	66,620	49,840
Rental	783	812	2,347	2,100
Recurring revenues	462,830	388,214	1,317,505	1,090,649
Non-recurring revenues	25,900	19,994	71,719	57,019
	$ 488,730	$ 408,208	$ 1,389,224	$ 1,147,668

No single customer accounted for 10% or greater of the Company s revenues for the three and nine months ended September 30, 2012 and 2011. No single customer accounted for 10% or greater of the Company s gross accounts receivable as of September 30, 2012 and December 31, 2011.

15. Restructuring Charges

2004 Restructuring Charge

A summary of the activity in the 2004 accrued restructuring charge from December 31, 2011 to September 30, 2012 is outlined as follows (in thousands):

Accrued restructuring charge as of December 31, 2011	$ 7,680
Accretion expense	323
Cash payments	(1,822)
Accrued restructuring charge as of September 30, 2012	$ 6,181

As the Company currently has no plans to enter into a lease termination with the landlord associated with the excess space lease in the New York metro area, the Company has reflected its accrued restructuring liability as both a current and non-current liability. The Company reports accrued restructuring charges within other current liabilities and other liabilities on the accompanying consolidated balance sheets as of September 30, 2012 and December 31, 2011. The Company is contractually committed to this excess space lease through 2015.

16. Subsequent Events

In November 2012, the Divestiture closed (see Note 4), which resulted in a pre-tax book gain on disposal of discontinued operations of approximately $26,000,000 and a taxable gain of approximately $47,000,000. The Company expects to recognize additional income tax expense of approximately $5,000,000 in the fourth quarter of 2012 as a result of the Divestiture, which will primarily offset the gain from discontinued operations. Further, the Company expects to recognize approximately $9,000,000 of equity compensation windfall tax benefits not previously recognized during the fourth quarter of 2012. This recognition will result in a reduction of income tax payable and the recording of an adjustment to additional-paid-in-capital. These events are expected to fully consume the previously unrecorded equity compensation windfall tax

benefits from prior years.

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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.

Our management s discussion and analysis of financial condition and results of operations is intended to assist readers in understanding our financial information from our management s perspective and is presented as follows:

- Overview
- Results of Operations
- Non-GAAP Financial Measures
- Liquidity and Capital Resources
- Contractual Obligations and Off-Balance-Sheet Arrangements
- Critical Accounting Policies and Estimates
- Recent Accounting Pronouncements

In September 2012, we announced that our board of directors approved a plan to pursue conversion to a real estate investment trust, which is referred to as a REIT. We refer to this conversion plan as the REIT conversion. If we are ultimately successful in converting to a REIT, we expect to elect REIT status for our taxable year beginning January 1, 2015. Please see Potential REIT Conversion in the below Overview.

In June 2012, as more fully described in Note 10 of Notes to Condensed Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q, we entered into a credit agreement with a group of lenders for a $750.0 million credit facility, comprised of a $200.0 million term loan facility, referred to as the U.S. term loan, and a $550.0 million multicurrency revolving credit facility, referred to as the U.S. revolving credit line. We refer to this transaction as the U.S. financing. In July 2012, we fully utilized the U.S. term loan and used the funds to prepay and terminate the Asia-Pacific financing.

In July 2012, as more fully described in Note 3 of Notes to Condensed Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q, we acquired certain assets and operations of Asia Tone Limited, referred to as Asia Tone, a privately-owned company headquartered in Hong Kong, for gross cash consideration of approximately $230.5 million. We refer to this transaction as the Asia Tone acquisition. We agreed to pay net cash consideration of $208.3 million as a result of adjustments to the purchase price included in the purchase and sale agreement. Asia Tone operates six data centers and one disaster recovery center in Hong Kong, Shanghai and Singapore. The Asia Tone acquisition included one data center under construction in Shanghai. The combined company will operate under the Equinix name.

In July 2012, as more fully described in Note 3 of Notes to Condensed Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q, we acquired 100% of the issued and outstanding share capital of ancotel GmbH, referred to as ancotel, a privately-owned company

headquartered in Frankfurt, Germany for cash consideration of approximately $85.7 million. We refer to

this transaction as the ancotel acquisition. ancotel operates one data center in Frankfurt and edge nodes in Hong Kong and London. ancotel will continue to operate under the ancotel trade name.

In August 2012, as more fully described in Note 4 of Notes to Condensed Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q, our board of directors approved a plan to sell 16 of our IBX data centers attributable to our Americas region. We refer to this transaction as the divestiture. In November 2012, the divestiture closed for net proceeds of approximately $76.5 million, which resulted in a pre-tax gain on disposal of discontinued operations of approximately $26.0 million.

Overview

Equinix provides global data center services that protect and connect the world s most valued information assets. Global enterprises, financial services companies, and content and network service providers rely upon Equinix s leading insight and data centers in 30 markets around the world for the safeguarding of their critical IT equipment and the ability to directly connect to the networks that enable today s information-driven economy. Equinix offers the following data center services: premium data center colocation, interconnection and exchange services, and outsourced IT infrastructure services. As of September 30, 2012, we operated or had partner IBX data centers in the Atlanta, Boston, Buffalo, Chicago, Cleveland, Dallas, Denver, Detroit, Indianapolis, Los Angeles, Miami, Nashville, New York, Philadelphia, Phoenix, Pittsburgh, Rio De Janeiro, Sao Paulo, Seattle, Silicon Valley, St. Louis, Tampa, Toronto and Washington, D.C. metro areas in the Americas region; France, Germany, Italy, the Netherlands, Switzerland and the United Kingdom in the Europe, Middle East, Africa (EMEA) region; and Australia, Hong Kong, Japan, China and Singapore in the Asia-Pacific region.

We leverage our global data centers in 30 markets around the world as a global service delivery platform which serves more than 90% of the world s Internet routes and allows our customers to increase information and application delivery performance while significantly reducing costs. Based on our global delivery platform and the quality of our IBX data centers, we believe we have established a critical mass of customers. As more customers locate in our IBX data centers, it benefits their suppliers and business partners to colocate as well in order to gain the full economic and performance benefits of our services. These partners, in turn, pull in their business partners, creating a marketplace for their services. Our global delivery platform enables scalable, reliable and cost-effective colocation, 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 marketplace effect. This global delivery platform, combined with our strong financial position, continues to drive new customer growth and bookings as we drive scale into our global business.

Historically, our market has been served by large telecommunications carriers who have bundled their telecommunications products and services with their colocation offerings. The data center services market landscape has evolved to include cloud computing/utility providers, application hosting providers and systems integrators, managed infrastructure hosting providers and colocation providers with over 350 companies providing data center services in the United States alone. Each of these data center services providers can bundle various colocation, interconnection and network services, and outsourced IT infrastructure services. We are able to offer our customers a global platform that supports global reach to 13 countries, proven operational reliability, improved application performance and network choice, and a highly scalable set of services.

Excluding Asia Tone and ancotel, our customer count increased to approximately 5,983 as of September 30, 2012 versus approximately 5,896 as of September 30, 2011, an increase of 3%. This increase was due to organic growth in our business. Our utilization rate represents the percentage of our cabinet space billing versus net sellable cabinet space available taking into account power limitations. Excluding Asia Tone and ancotel, our utilization rate decreased to 76% as of September 30, 2012 versus approximately 81% as of September 30, 2011; however, excluding the impact of our IBX data center expansion projects that have opened during the last 12 months, our utilization rate would have increased to approximately 82% as of September 30, 2012. Our utilization rate varies from market to market among our IBX data centers across the Americas, EMEA and Asia-Pacific regions. 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. We perform demand studies on an ongoing basis to determine if future expansion is warranted in a market. 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 power our customers draw 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 data centers to support power and cooling needs twice that of previous IBX data centers. We could face power limitations in our centers even though we may have additional physical cabinet capacity available within a specific IBX data 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.

Strategically, we will continue to look at attractive opportunities to grow our market share and selectively improve our footprint and service offerings. As was the case with our recent expansions and acquisitions, our expansion criteria will be dependent on a number of factors such as demand from new and existing customers, quality of the design, power capacity, access to networks, capacity availability in the current market location, amount of incremental investment required by us in the targeted property, lead-time to break-even on a free cash flow basis and in-place customers. Like our recent expansions and acquisitions, the right combination of these factors may be attractive to us. Depending on the circumstances, these transactions may require additional capital expenditures funded by upfront cash payments or through long-term financing arrangements, in order to bring these properties up to Equinix standards. Property expansion may be in the form of purchases 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 generally 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 have comprised more than 90% of our total revenues during the past three years. In addition, during the past three years, in any given quarter, greater than half of our monthly recurring revenue bookings came from existing customers, contributing to our revenue growth.

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 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. However, revenues from installation services are deferred and recognized ratably over the longer of the term of the related contract or expected life of the services. Additionally, revenue from contract settlements, when a customer wishes to terminate their contract early, is recognized when no remaining performance obligations exist and collectability is reasonably assured, to the extent that the revenue has not previously been recognized. As a percentage of total revenues, we expect non-recurring revenues to represent less than 10% of total revenues for the foreseeable future.

Our Americas revenues are derived primarily from colocation and interconnection services while our EMEA and Asia-Pacific revenues are derived primarily from colocation and managed infrastructure services.

The largest components of our cost of revenues are depreciation, rental payments related to our leased IBX data centers, utility costs, including electricity and bandwidth, IBX data center employees salaries and benefits, including stock-based compensation, repairs and maintenance, 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, unless we expand our existing IBX data centers or open or acquire new IBX data centers. 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 generally increase in the future on a per-unit or fixed basis in addition to the variable increase related to the growth in consumption by the customer. In addition, the cost of electricity is generally higher in the summer months as compared to other times of the year. To the extent we incur increased utility costs, such increased costs could materially impact our financial condition, results of operations and cash flows. Furthermore, to the extent we incur increased electricity costs as a result of either climate change policies or the physical effects of climate change, such increased costs could materially impact our financial condition, results of operations and cash flows.

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, as well as bad debt expense and amortization of customer contract intangible assets.

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

Due to our recurring revenue model, and a cost structure which has a large base that is fixed in nature and generally does not grow in proportion to revenue growth, we expect our cost of revenues, sales and marketing expenses and general and administrative expenses to decline as a percentage of revenue over time, although we expect each of them to grow in absolute dollars in connection with our growth. This is evident in the trends noted below in our discussion on our results of operations. However, for cost of revenues, this trend may periodically be impacted when a large expansion project opens or is acquired and before it starts generating any meaningful revenue. Furthermore, in relation to cost of revenues, we note that the Americas region has a lower cost of revenues as a percentage of revenue than either EMEA or Asia-Pacific. This is due to both the increased scale and maturity of the Americas region compared to either EMEA or Asia-Pacific, as well as a higher cost structure outside of the Americas, particularly in EMEA. While we expect all three regions to continue to see lower cost of revenues as a percentage of revenues in future periods, we expect the trend of the Americas having the lowest cost of revenues as a percentage of revenue and EMEA having the highest to continue. As a result, to the extent that revenue growth outside the Americas grows in greater proportion than revenue growth in the Americas, our overall cost of revenues as a percentage of revenues may increase in future periods. Sales and marketing expenses and general and administrative expenses may also periodically increase as a percentage of revenue as we continue to scale our operations to support our growth.

Potential REIT Conversion

On September 13, 2012, we announced that our board of directors approved a plan for Equinix to pursue REIT conversion. We have begun implementation of the REIT conversion and we plan to make a tax election for REIT status for the taxable year beginning January 1, 2015. Any REIT election made by us must be effective as of the beginning of a taxable year; therefore, as a calendar year taxpayer, if we are unable to convert to a REIT by January 1, 2015, the next possible conversion date would be January 1, 2016.

If we are able to convert to, and qualify as, a REIT, we will generally be permitted to deduct from U.S. federal income taxes dividends paid to our stockholders. The income represented by such dividends would not be subject to U.S. federal taxation at the entity level but would be taxed, if at all, at the stockholder level. Nevertheless, the income of our U.S. taxable REIT subsidiaries, which are referred to as TRS, which will hold our U.S. operations that may not be REIT-compliant, will be subject, as applicable, to U.S. federal and state corporate income tax. Likewise, our foreign subsidiaries will continue to be subject to foreign income taxes in jurisdictions in which they hold assets or conduct operations, regardless of whether held or conducted through TRS or through qualified REIT subsidiaries, which are referred to as QRS. We will also be subject to a separate corporate income tax on any gains recognized

during a specified period (generally 10 years) following the REIT conversion that are attributable to built-in gains with respect to the assets that we own on the date we convert to a REIT. Our ability to qualify as a REIT will depend upon our continuing compliance following our conversion to a REIT with various requirements, including requirements related to the nature of our assets, the sources of our income and the distributions to our stockholders. If we fail to qualify as a REIT, we will be subject to U.S. federal income tax at regular corporate rates. Even if we qualify for taxation as a REIT, we may be subject to some federal, state, local and foreign taxes on our income and property. In particular, while state income tax regimes often parallel the U.S. federal income tax regime for REITs described above, many states do not completely follow U.S. federal rules and some may not follow them at all.

The REIT conversion currently includes seeking a private letter ruling, which is referred to as a PLR, from the U.S. Internal Revenue Service, which is referred to as the IRS. We expect that our PLR request will have multiple components, and the conversion to a REIT will require favorable rulings from the IRS on numerous technical tax issues, including classification of our data center assets as qualified real estate assets. We anticipate submitting the PLR request to the IRS by the end of 2012, but the IRS may not provide a PLR until late in 2013 or at all.

We currently estimate that we will incur approximately $50.0 to $80.0 million in costs to support the REIT conversion, in addition to related tax liabilities associated with a change in our method of depreciating and amortizing various data center assets for tax purposes from our current method to methods that are more consistent with the characterization of such assets as real property for REIT purposes. The total recapture of depreciation and amortization expenses across all relevant assets is expected to result in a U.S. tax liability of approximately $340.0 to $420.0 million. This amount may still be payable in the four-year period starting 2012 even if we abandon the REIT conversion for, among other reasons, failing to receive the PLR we are seeking. Prior to the decision to convert to a REIT, our balance sheet reflected our income tax liability as a non-current liability. As a result of the decision to convert to a REIT, our non-current tax liability will be gradually and proportionally reclassified from non-current to current over the four-year period, which started the third quarter of 2012. The current liability reflects the tax liability that is expected to be settled within the twelve-month period from the date of the balance sheet. We anticipate that we will utilize all of our net operating loss carryforwards in 2012 to offset a portion of this tax liability. If the REIT conversion is successful, we also expect to incur an additional $5.0 to $10.0 million in annual compliance costs in future years. We expect worldwide cash taxes of approximately $25.0 million during the remainder of 2012 primarily as a result of the tax depreciation method change and tax gain attributed to the divestiture. We expect to pay between $200.0 to $300.0 million in cash taxes during 2013.

Results of Operations

Our results of operations for the three and nine months ended September 30, 2012 and 2011 include the operations of Asia Tone from July 4, 2012, ancotel from July 3, 2012 and ALOG Data Centers do Brasil S.A., or ALOG, from April 25, 2011.

Discontinued Operations

We present the results of operations associated with 16 of our IBX centers that we agreed to sell as net income from discontinued operations in our condensed consolidated statements of operations. Our results of operations have been reclassified to reflect our discontinued operations for all periods presented. Unless otherwise stated, the results of operations discussed herein refer to our continuing operations.

Constant Currency Presentation

Our revenues and certain operating expenses (cost of revenues, sales and marketing and general and administrative expenses) from our international operations have represented and will continue to represent a significant portion of our total revenues and certain operating expenses. As a result, our revenues and certain operating expenses have been and will continue to be affected by changes in the

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U.S. dollar against major international currencies such as the Brazilian reais, British pound, Canadian dollar, Euro, Swiss franc, Australian dollar, Chinese Yuan, Hong Kong dollar, Japanese yen and Singapore dollar. In order to provide a framework for assessing how each of our business segments performed excluding the impact of foreign currency fluctuations, we present period-over-period percentage changes in our revenues and certain operating expenses on a constant currency basis in addition to the historical amounts as reported. Presenting constant currency results of operations is a non-GAAP financial measure and is not meant to be considered in isolation or as an alternative to GAAP results of operations. However, we have presented this non-GAAP financial measure to provide investors with an additional tool to evaluate our operating results. To present this information, our current and comparative prior period revenues and certain operating expenses from entities reporting in currencies other than the U.S. dollar are converted into U.S. dollars at constant exchange rates rather than the actual exchange rates in effect during the respective periods (i.e. average rates in effect for the three months ended September 30, 2011 are used as exchange rates for the three months ended September 30, 2012 when comparing the three months ended September 30, 2012 with the three months ended September 30, 2011 and average rates in effect for the nine months ended September 30, 2011 are used as exchange rates for the nine months ended September 30, 2012 when comparing the nine months ended September 30, 2012 with the nine months ended September 30, 2011).

Three Months Ended September 30, 2012 and 2011

Revenues. Our revenues for the three months ended September 30, 2012 and 2011 were generated from the following revenue classifications and geographic regions (dollars in thousands):

	Three months ended September 30,				% Change	
	2012	%	2011	%	Actual	Constant currency
Americas:						
Recurring revenues	$ 280,847	57%	$ 250,128	62%	12%	14%
Non-recurring revenues	13,034	3%	9,333	2%	40%	43%
	293,881	60%	259,461	64%	13%	15%
EMEA:						
Recurring revenues	104,126	21%	85,108	20%	22%	33%
Non-recurring revenues	7,832	2%	7,216	2%	9%	14%
	111,958	23%	92,324	22%	21%	32%
Asia-Pacific:						
Recurring revenues	77,857	16%	52,978	13%	47%	48%
Non-recurring revenues	5,034	1%	3,445	1%	46%	47%
	82,891	17%	56,423	14%	47%	48%
Total:						
Recurring revenues	462,830	94%	388,214	95%	19%	23%
Non-recurring revenues	25,900	6%	19,994	5%	30%	33%
	$ 488,730	100%	$ 408,208	100%	20%	23%

Americas Revenues. Growth in Americas revenues was primarily due to (i) $4.3 million of revenue generated from our recently-opened IBX data centers or IBX data center expansions in the Chicago, Dallas, Miami, New York and Washington, D.C. metro areas and (ii) an increase in orders from both our existing customers and new customers during the period as reflected in the growth in our customer count and utilization rate, as discussed above, in both our new and existing IBX data centers. During the three months ended September 30, 2012, the U.S. dollar was generally stonger relative to the Brazilian reais than during the three months ended September 30, 2011, resulting in approximately $4.6 million of unfavorable foreign currency impact to our Americas revenues during the three months ended September 30, 2012 when compared to average exchange rates of the three months ended September 30, 2011. We expect that our Americas revenues will continue to grow in future periods as a result of continued growth in the recently-opened IBX data centers or IBX data center expansions and additional expansions currently taking place in the Chicago, Seattle and Washington, D.C. metro areas, which are expected to

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open during the remainder of 2012 and 2013. Our estimates of future revenue growth take account of known or anticipated changes in recurring revenues attributed to customer bookings, customer churn or changes or amendments to customers contracts.

EMEA Revenues. Our revenues from the U.K., the largest revenue contributor in the EMEA region, represented approximately 37% and 35%, respectively, of the regional revenues during the three months ended September 30, 2012 and 2011. Our EMEA revenue growth was due to (i) $5.5 million of additional revenues resulting from the ancotel acquisition, (ii) $6.9 million of revenue generated from our recently-opened IBX data center expansion in the Amsterdam, Frankfurt, London and Paris metro areas and (iii) an increase in orders from both our existing customers and new customers during the period as reflected in the growth in our customer count and utilization rate, as discussed above, in both our new and existing IBX data centers. During the three months ended September 30, 2012, the U.S. dollar was generally stronger relative to the British pound, Euro and Swiss Franc than during the three months ended September 30, 2011, resulting in approximately $9.5 million of unfavorable foreign currency impact to our EMEA revenues during the three months ended September 30, 2012 when compared to average exchange rates of the three months ended September 30, 2011. We expect that our EMEA revenues will continue to grow in future periods as a result of continued growth in recently-opened IBX data centers or IBX data center expansion currently taking place in the Zurich metro area, which is expected to open during the first half of 2013. Our estimates of future revenue growth take account of known or anticipated changes in recurring revenues attributed to customer bookings, customer churn or changes or amendments to customers contracts.

Asia-Pacific Revenues. Our revenues from Singapore, the largest revenue contributor in the Asia-Pacific region, represented approximately 36% and 39%, respectively, of the regional revenues for the three months ended September 30, 2012 and 2011. Our Asia-Pacific revenue growth was due to $10.6 million of additional revenues resulting from the Asia Tone acquisition, (ii) revenues generated from our recently-opened IBX center expansions in the Hong Kong and Sydney metro areas and (iii) an increase in orders from both our existing customers and new customers during the period as reflected in the growth in our customer count and utilization rate, as discussed above, in both our new and existing IBX data centers. For the three months ended September 30, 2012, the impact of foreign currency fluctuations to our Asia-Pacific revenues was not significant when compared to average exchange rates of the three months ended September 30, 2011. We expect that our Asia-Pacific revenues will continue to grow in future periods as a result of continued growth in these recently-opened IBX center expansions and additional expansion currently taking place in the Singapore metro area, which is expected to open during the remainder of 2012. Our estimates of future revenue growth take account of known or anticipated changes in recurring revenues attributed to customer bookings, or changes or amendments to customers contracts.

Cost of Revenues. Our cost of revenues for the three months ended September 30, 2012 and 2011 were split among the following geographic regions (dollars in thousands):

	Three months ended September 30,				% Change	
	2012	%	2011	%	Actual	Constant currency
Americas	$ 137,616	55%	$ 129,692	59%	6%	8%
EMEA	61,642	25%	54,839	25%	12%	23%
Asia-Pacific	52,229	20%	35,193	16%	48%	50%
Total	$ 251,487	100%	$ 219,724	100%	14%	19%

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	Three months ended September 30,	
	2012	2011
Cost of revenues as a percentage of revenues:		
Americas	47%	50%
EMEA	55%	59%
Asia-Pacific	63%	62%
Total	51%	54%

Americas Cost of Revenues. Our Americas cost of revenues for the three months ended September 30, 2012 and 2011 included $50.2 million and $45.7 million, respectively, of depreciation expense. Growth in depreciation expense was primarily due to our IBX center expansion activity. During the three months ended September 30, 2012, the U.S. dollar was generally stronger relative to the Brazilian reais than during the three months ended September 30, 2011, resulting in approximately $2.9 million of favorable foreign currency impact to our Americas cost of revenues during the three months ended September 30, 2012 when compared to average exchange rates of the three months ended September 30, 2011. We expect Americas cost of revenues to increase as we continue to grow our business.

EMEA Cost of Revenues. EMEA cost of revenues for the three months ended September 30, 2012 and 2011 included $18.6 million and $17.5 million, respectively, of depreciation expense. Growth in depreciation expense was primarily due to both our organic IBX center expansion activity and the ancotel acquisition. Excluding depreciation expense, the increase in our EMEA cost of revenues was primarily due to $2.1 million of additional cost of revenues resulting from the ancotel acquisition. During the three months ended September 30, 2012, the U.S. dollar was generally stronger relative to the British pound, Euro and Swiss Franc than during the three months ended September, 2011, resulting in approximately $5.9 million of favorable foreign currency impact to our EMEA cost of revenues during the three months ended September 30, 2012 when compared to average exchange rates of the three months ended September 30, 2011. On a constant currency basis, the increase in EMEA cost of revenues was primarily due to higher utility costs, compensation costs and depreciation expense. We expect EMEA cost of revenues to increase as we continue to grow our business.

Asia-Pacific Cost of Revenues. Asia-Pacific cost of revenues for the three months ended September 30, 2012 and 2011 included $21.5 million and $13.5 million, respectively, of depreciation expense. Growth in depreciation expense was primarily due to both our organic IBX center expansion activity and the Asia Tone acquisition. Excluding depreciation expense, the increase in Asia-Pacific cost of revenues was primarily due to $4.6 million of additional cost of revenues from the impact of the Asia Tone acquisition and $2.8 million of higher utility costs. During the three months ended September 30, 2012, the impact of foreign currency fluctuations to our Asia-Pacific cost of revenues was not significant when compared to average exchange rates of the three months ended September 30, 2011. We expect Asia-Pacific cost of revenues to increase as we continue to grow our business.

Sales and Marketing Expenses. Our sales and marketing expenses for the three months ended September 30, 2012 and 2011 were split among the following geographic regions (dollars in thousands):

	Three months ended September 30,				% Change	
	2012	%	2011	%	Actual	Constant currency
Americas	$ 31,891	60%	$ 28,940	67%	10%	13%
EMEA	13,978	26%	9,329	22%	50%	58%
Asia-Pacific	7,342	14%	4,615	11%	59%	60%
Total	$ 53,211	100%	$ 42,884	100%	24%	28%

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	Three months ended September 30,	
	2012	**2011**
Sales and marketing expenses as a percentage of revenues:		
Americas	11%	11%
EMEA	12%	10%
Asia-Pacific	9%	8%
Total	11%	11%

Americas Sales and Marketing Expenses. The increase in our Americas sales and marketing expenses was primarily due to higher professional services related to various consulting projects to support our growth and higher compensation costs, including sales compensation, general salaries, bonuses, stock-based compensation and headcount growth (317 Americas sales and marketing employees as of September 30, 2012 versus 280 as of September 30, 2011). During the three months ended September 30, 2012, the impact of foreign currency fluctuations to our Americas sales and marketing expenses was not significant when compared to average exchange rates of the three months ended September 30, 2011. Over the past several years, we have been investing in our Americas sales and marketing initiatives to further increase our revenue. These investments have included the hiring of additional headcount and new product innovation efforts and, as a result, our Americas sales and marketing expenses as a percentage of revenues have increased. Although we anticipate that we will continue to invest in Americas sales and marketing initiatives, we believe our Americas sales and marketing expenses as a percentage of revenues will remain at approximately current levels over the next year but should ultimately decrease as we continue to grow our business.

EMEA Sales and Marketing Expenses. The increase in our EMEA sales and marketing expenses was primarily due to $2.2 million of additional sales and marketing expenses from the impact of the ancotel acquisition and $2.2 million of higher compensation costs, including sales compensation, general salaries, bonuses, stock-based compensation expense and headcount growth (144 EMEA sales and marketing employees as of September 30, 2012 versus 108 as of September 30, 2011). During the three months ended September 30, 2012, the impact of foreign currency fluctuations to our EMEA sales and marketing expenses was not significant when compared to average exchange rates of the three months ended September 30, 2011. Over the past several years, we have been investing in our EMEA sales and marketing initiatives to further increase our revenue. These investments have included the hiring of additional headcount and new product innovation efforts and, as a result, our EMEA sales and marketing expenses as a percentage of revenues have increased. Although we anticipate that we will continue to invest in EMEA sales and marketing initiatives, we believe our EMEA sales and marketing expenses as a percentage of revenues will remain at approximately current levels over the next year but should ultimately decrease as we continue to grow our business.

Asia-Pacific Sales and Marketing Expenses. The increase in our Asia-Pacific sales and marketing expenses was primarily due to additional sales and marketing expenses from the impact of the Asia Tone acquisition and higher compensation costs, including sales compensation, general salaries, bonuses, stock-based compensation expense and headcount growth (86 Asia-Pacific sales and marketing employees as of September 30, 2012 versus 70 as of September 30, 2011). For the three months ended September 30, 2012, the impact of foreign currency fluctuations to our Asia-Pacific sales and marketing expenses was not significant when compared to average exchange rates of the three months ended September 30, 2011. Over the past several years, we have been investing in our Asia-Pacific sales and marketing initiatives to further increase our revenue. These investments have included the hiring of additional headcount and new product innovation efforts and, as a result, our Asia-Pacific sales and marketing expenses have increased. Although we anticipate that we will continue to invest in Asia-Pacific sales and marketing initiatives, we believe our Asia-Pacific sales and marketing expenses as a percentage of revenues will remain at approximately current levels over the next year but should ultimately decrease as we continue to grow our business.

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General and Administrative Expenses. Our general and administrative expenses for the three months ended September 30, 2012 and 2011 were split among the following geographic regions (dollars in thousands):

	Three months ended September 30,				% Change	
	2012	%	2011	%	Actual	Constant currency
Americas	$ 60,634	72%	$ 47,581	72%	27%	28%
EMEA	14,767	18%	11,851	18%	25%	&nb