EQUINIX INC
Form 10-Q
October 24, 2008
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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, 2008

OR

o 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.)

301 Velocity Way, Fifth Floor, Foster City, California 94404
(Address of principal executive offices, including ZIP code)

(650) 513-7000
(Registrant's telephone number, including area code)

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

Yes x No o

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 o Non-accelerated filer o Smaller reporting company o

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

The number of shares outstanding of the registrant's Common Stock as of September 30, 2008 was 37,349,752.

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PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

EQUINIX, INC.
Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2008	December 31, 2007
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 160,685	$ 290,633
Short-term investments	101,892	63,301
Accounts receivable, net	62,376	60,089
Prepaids and other current assets	17,701	12,738
Total current assets	342,654	426,761
Long-term investments	67,622	29,966
Property and equipment, net	1,346,982	1,162,720
Goodwill	411,108	442,926
Intangible assets, net	62,351	67,207
Debt issuance costs, net	18,363	21,333
Other assets	42,855	30,955
Total assets	$ 2,291,935	$ 2,181,868
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	$ 71,234	$ 65,096
Accrued property and equipment	56,537	76,504
Current portion of capital lease and other financing obligations	3,986	3,808
Current portion of mortgage and loans payable	41,486	16,581
Current portion of convertible debt	32,250	—
Other current liabilities	33,583	29,473
Total current liabilities	239,076	191,462
Capital lease and other financing obligations, less current portion	95,095	93,604
Mortgage and loans payable, less current portion	374,872	313,915
Convertible debt, less current portion	645,986	678,236
Deferred tax liabilities	21,785	25,955
Deferred rent and other liabilities	77,871	64,264
Total liabilities	1,454,685	1,367,436
Stockholders' equity:		
Common stock	37	37
Additional paid-in capital	1,445,363	1,376,915
Accumulated other comprehensive loss	(64,557)	(3,888)
Accumulated deficit	(543,593)	(558,632)
Total stockholders' equity	837,250	814,432

Total liabilities and stockholders' equity	$ 2,291,935	$ 2,181,868

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, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
	(unaudited)			
Revenues	$ 183,735	$ 103,782	$ 513,997	$ 280,728
Costs and operating expenses:				
Cost of revenues	109,863	62,891	306,357	171,265
Sales and marketing	16,009	9,630	46,650	27,602
General and administrative	35,529	25,182	111,350	72,122
Restructuring charges	799		799	407
Total costs and operating expenses	162,200	97,703	465,156	271,396
Income from operations	21,535	6,079	48,841	9,332
Interest income	441	3,309	6,293	10,340
Interest expense	(13,880)	(5,662)	(40,297)	(15,240)
Other income (expense)	(520)	3,167	602	3,168
Loss on conversion and extinguishment of debt		(2,554)		(5,949)
Income before income taxes	7,576	4,339	15,439	1,651
Income taxes	(187)	(215)	(400)	(766)
Net income	$ 7,389	$ 4,124	$ 15,039	$ 885
Basic net income per share:				
Net income per share	$ 0.20	$ 0.13	$ 0.41	$ 0.03
Weighted-average shares	36,972	31,683	36,608	30,845
Diluted net income per share:				
Net income per share	$ 0.19	$ 0.12	$ 0.40	$ 0.03
Weighted-average shares	37,932	33,112	37,731	32,339

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,	
	2008	2007
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 15,039	$ 885
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	110,110	64,495
Stock-based compensation	41,951	31,032
Amortization of intangible assets	5,236	689
Amortization of debt issuance costs	3,753	1,985
Accretion of asset retirement obligation and accrued restructuring charges	1,245	2,373
Restructuring charges	799	407
Gain on foreign currency hedge	—	(1,494)
Other items	285	(1,152)
Changes in operating assets and liabilities:		
Accounts receivable	(3,783)	(7,068)
Prepaids and other assets	(2,018)	(1,825)
Accounts payable and accrued expenses	5,015	23,079
Accrued restructuring charges	(2,034)	(10,100)
Other liabilities	15,665	2,833
Net cash provided by operating activities	191,263	106,139
Cash flows from investing activities:		
Purchases of investments	(240,556)	(89,476)
Sales of investments	71,141	100
Maturities of investments	93,268	71,421
Purchase of San Jose IBX property	—	(71,471)
Purchase of Los Angeles IBX property	—	(49,059)
Purchase of IXEurope, net of cash acquired	—	(541,729)
Purchase of Virtu, net of cash acquired	(23,241)	—
Purchases of other property and equipment	(305,546)	(295,809)
Change in accrued property and equipment	(16,015)	23,940
Purchase of restricted cash	(14,234)	(598)
Release of restricted cash	333	—
Other investing activities	—	1,475
Net cash used in investing activities	(434,850)	(951,206)
Cash flows from financing activities:		
Proceeds from employee equity awards	26,087	27,568
Proceeds from issuance of common stock	—	339,946
Proceeds from convertible debt	—	645,986
Proceeds from loans payable	102,101	118,754
Repayment of capital lease and other financing obligations	(2,874)	(1,445)

Repayment of mortgage and loans payable	(11,456)	(1,573)
Debt issuance costs	(908)	(22,224)
Net cash provided by financing activities	112,950	1,107,012
Effect of foreign currency exchange rates on cash and cash equivalents	689	(1,056)
Net increase (decrease) in cash and cash equivalents	(129,948)	260,889
Cash and cash equivalents at beginning of period	290,633	82,563
Cash and cash equivalents at end of period	$ 160,685	$ 343,452
Supplemental cash flow information:		
Cash paid for taxes	$ 405	$ 240
Cash paid for interest	$ 35,486	$ 16,130

See accompanying notes to condensed consolidated financial statements

EQUINIX, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

The accompanying unaudited condensed consolidated financial statements have been prepared by Equinix, Inc. (''Equinix'' or the ''Company'') and reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state the financial position and the results of operations for the interim periods presented. The balance sheet at December 31, 2007 has been derived from audited financial statements at that date. The financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (''SEC''), but omit certain information and footnote disclosure necessary to present the statements in accordance with generally accepted accounting principles. For further information, refer to the Consolidated Financial Statements and Notes thereto included in Equinix's Form 10-K as filed with the SEC on February 27, 2008. Results for the interim periods are not necessarily indicative of results for the entire fiscal year.

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Certain amounts in the accompanying condensed consolidated financial statements have been reclassified to conform to the condensed consolidated financial statement presentation as of and for the three and nine months ended September 30, 2008.

Consolidation and Foreign Currency Transactions

The accompanying unaudited condensed consolidated financial statements include the accounts of Equinix and its subsidiaries, including the operations of IXEurope from September 14, 2007 and Virtu from February 5, 2008 (see Note 2). All significant intercompany accounts and transactions have been eliminated in consolidation. Foreign exchange gains or losses resulting from foreign currency transactions, including intercompany foreign currency transactions that are anticipated to be repaid within the foreseeable future, are reported within other income (expense) on the Company's accompanying statements of operations.

Revenue Recognition and Allowance for Doubtful Accounts

Equinix derives more than 90% of its revenues from recurring revenue streams, consisting primarily of (1) colocation services, such as the licensing of cabinet space and power; (2) interconnection services, such as cross connects and Equinix Exchange ports; (3) managed infrastructure services, such as Equinix Direct and bandwidth and (4) other services consisting of rent. The remainder of the Company's revenues are from non-recurring revenue streams, such as from the recognized portion of deferred installation revenues, professional services, contract settlements and equipment sales. Revenues from recurring revenue streams are generally billed monthly and recognized ratably over the term of the contract, generally one to three years for Internet Business Exchange ("IBX") space customers. Non-recurring installation fees, although generally paid in a lump sum upon installation, are deferred and recognized ratably over the longer of the term of the related contract or expected life of the installation. Professional service fees are recognized in the period in which the services were provided and represent the culmination of a separate earnings process as long as they meet the criteria for separate recognition under EITF No. 00-21, "Revenue Arrangements with Multiple Deliverables." Revenue from bandwidth and equipment sales is recognized on a gross basis in accordance with EITF No. 99-19, "Recording Revenue as a Principal versus Net as an Agent", primarily because the Company acts

as the principal in the transaction, takes title to products and services and bears inventory and credit risk. To the extent the Company does not meet the criteria for gross basis accounting for bandwidth and equipment revenue, the Company records the revenue on a net basis. Revenue from contract settlements, when a customer wishes to terminate their contract early, is generally recognized on a cash basis, when no remaining performance obligations exist, to the extent that the revenue has not previously been recognized.

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

The Company occasionally guarantees certain service levels, such as uptime, as outlined in individual customer contracts. To the extent that these service levels are not achieved, the Company reduces revenue for any credits given to the customer as a result. The Company generally has the ability to determine such service level credits prior to the associated revenue being recognized, and historically, these credits have generally not been significant. There were no significant service level credits issued during the three and nine months ended September 30, 2008 and 2007.

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

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

Net Income per Share

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

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Numerator:				
Numerator for basic net income per share	$ 7,389	$ 4,124	$ 15,039	$ 885
Effect of assumed conversion of convertible subordinated debentures and notes:				
Interest expense, net of tax	—	—	—	—
Numerator for diluted net income per share	$ 7, 389	$ 4,124	$ 15, 039	$ 885
Denominator:				
Weighted-average shares	37,268	32,142	36,975	31,305
Weighted-average unvested restricted shares issued subject to forfeiture	(296)	(459)	(367)	(460)
Denominator for basic net income per share	36,972	31,683	36,608	30,845
Effect of dilutive securities:				
Convertible subordinated debentures	—	—	—	—
2.50% convertible subordinated notes	—	—	—	—
3.00% convertible subordinated notes	—	—	—	—
Employee equity awards	960	1,429	1,123	1,494
Warrants	—	—	—	—
Total dilutive potential shares	960	1,429	1,123	1,494
Denominator for diluted net income per share	37,932	33,112	37,731	32,339
Net income per share:				
Basic	$ 0.20	$ 0.13	$ 0.41	$ 0.03
Diluted	$ 0.19	$ 0.12	$ 0.40	$ 0.03

The following table sets forth potential shares of common stock that are not included in the diluted net income 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,	
	2008	2007	2008	2007
Shares reserved for conversion of convertible subordinated debentures	816	816	816	816
Shares reserved for conversion of 2.50% convertible subordinated notes	2,232	2,232	2,232	2,232
Shares reserved for conversion of 3.00% convertible subordinated notes	2,945	2,945	2,945	2,945
Common stock warrants	1	1	1	1
Common stock related to employee equity awards	1,447	1,065	1,520	1,093
	7,441	7,059	7,514	7,087

Income Taxes

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

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

The Company recorded an additional deferred tax liability totaling $1,372,000 with an increase to goodwill as a result of the Virtu Acquisition. The deferred tax liability recognized is primarily attributable to the identifiable intangible assets that were recorded for the purchase.

The Company will continue to provide a valuation allowance for the net deferred tax assets, other than the deferred tax assets associated with its Singapore and Swiss subsidiaries, until it becomes more likely than not that the net deferred tax assets will be realizable. For the three and nine months ended September 30, 2008, the Company recorded $187,000 and $400,000, respectively, of tax expense. The tax benefit and expense recorded during the periods ended September 30, 2008 were primarily attributable to the Company's foreign operations. For the three and nine months ended September 30, 2007, the Company recorded a tax provision of $215,000 and $766,000, respectively. The tax provision recorded in the periods ended September 30, 2007 was primarily attributable to the Company's foreign operations. The tax provision for the nine months ended September 30, 2008 includes a tax benefit of $185,000 the Company recorded due to a tax settlement with a state in which it operated. The Company did not record any excess tax benefits associated with the stock options exercised by employees during the three and nine months ended September 30, 2008 and 2007.

In January 2007, the Company adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in the condensed consolidated financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. The adoption of FIN 48 resulted in no cumulative effect of a change in accounting principle being recorded on the Company's condensed consolidated financial statements during the three months ended March 31, 2007. Prior to the adoption of FIN 48, the Company recorded liabilities related to uncertain income tax position based upon SFAS No. 5, "Accounting for Contingencies."

During the three months ended March 31, 2008, the Company reached a final agreement with a state in which it operated to close an appeal filed by the Company in that state's tax court. The Company filed the appeal in 2006 to contest the decision made by the state auditor disallowing the refundable research and capital goods credits. The executed closing settlement specified that the state would credit the Company $357,000 plus interest, which was received. As a result of the settlement, the total unrecognized tax benefits decreased by $1,373,000 in the nine months ended September 30, 2008. A majority of the unrecognized tax benefits, if subsequently recognized, will affect the Company's effective tax rate at the time of recognition. The Company will continue to classify the interest and penalties recognized in accordance with paragraphs 15 and 16, respectively, of FIN 48 in the financial statements as income tax. The Company's income tax returns for all tax years remain open to examination by federal and various state taxing authorities due to the Company's Net Operating Loss ("NOL") carry-forward. In addition, the Company's tax years of 2001 through 2007 also remain open and subject to examination by local tax authorities in the foreign jurisdictions in which the Company has major operations.

Construction in Progress

Construction in progress includes direct and indirect expenditures for the construction and expansion of IBX centers and is stated at original cost. The Company has contracted out substantially all of the construction and expansion efforts of its IBX centers to independent contractors under construction contracts. Construction in progress includes certain costs incurred under a construction contract including project management services, engineering and schematic design services, design development, construction services and other construction-related fees and services. In

addition, the Company has capitalized certain interest costs during the construction phase. Once an IBX center or expansion project becomes operational, these capitalized costs are allocated to certain property and equipment categories and are depreciated at the appropriate rates consistent with the estimated useful life of the underlying assets.

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

Interest incurred is capitalized in accordance with SFAS No. 34, "Capitalization of Interest Costs." The following table sets forth total interest cost incurred and total interest cost capitalized (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Interest expense	$ 13,880	$ 5,662	$ 40,297	$ 15,240
Interest capitalized	1,490	2,974	4,684	6,120
Interest charges incurred	$ 15,370	$ 8,636	$ 44,981	$ 21,360

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), "Share-Based Payment," and related pronouncements ("SFAS 123(R)"). Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date for all stock-based awards made to employees and directors based on the fair value of the award and is recognized as expense over the requisite service period, which is generally the vesting period. SFAS 123(R) supersedes the Company's previous accounting under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB 25") for periods beginning in fiscal year 2006. Commencing in March 2008, the Company began granting restricted stock units to its employees in lieu of stock options.

In January 2008, the Compensation Committee of the Board of Directors approved the issuance of an aggregate of 123,000 shares of restricted stock units to executive officers pursuant to the 2000 Equity Incentive Plan. In addition, in February 2008, the Stock Award Committee of the Board of Directors approved the issuance of 308,267 restricted stock units to certain employees, excluding executive officers, as part of the Company's annual refresh program. All awards are subject to vesting provisions. All such equity awards described in this paragraph had a total fair value as of the date of grants, net of estimated forfeitures, of $28,565,000, which is expected to be amortized over a weighted-average period of 3.23 years.

During the three months ended June 30, 2008, the Company entered into compromise agreements with its two senior officers in Europe in connection with their resignations and modified their outstanding stock awards. As a result, the Company recorded an incremental stock-based compensation charge of $3,098,000 during the nine months ended September 30, 2008, which is included in general and administrative expenses in the Company's condensed consolidated statements of operations.

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Cost of revenues	$ 1,257	$ 878	$ 3,435	$ 3,019
Sales and marketing	2,367	2,049	7,421	6,440
General and administrative	8,938	7,562	31,095	21,573

	$ 12,562	$ 10,489	$ 41,951	$ 31,032

Goodwill and Other Intangible Assets

Equinix currently operates in one reportable segment, but has determined that it operates in a number of reporting units for the purposes of SFAS No. 142, which consists of the Company's geographic operations in 1) the United States, 2) Asia-Pacific and 3) Europe. As of September 30, 2008, the Company

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

had goodwill attributable to the Asia-Pacific reporting unit and the Europe reporting unit. The Company performed its annual impairment review of the Europe reporting unit as of August 31, 2008. The Company concluded that its goodwill attributed to the Company's Europe reporting unit was not impaired as the fair value of its Europe reporting unit exceeded the carrying value of this reporting unit, including goodwill. The recent market declines have not had an impact on this determination. The primary methods used to determine the fair values for SFAS No. 142 impairment purposes were the discounted cash flow and market methods. The assumptions supporting the discounted cash flow method, including the discount rate, which was assumed to be 9.5%, were determined using the Company's best estimates as of the date of the impairment review. Impairment assessment inherently involves judgment as to assumptions about expected future cash flows and the impact of market conditions on those assumptions. Future events and changing market conditions may impact the Company's assumptions as to prices, costs, growth rates or other factors that may result in changes in the Company's estimates of future cash flows. Although the Company believes the assumptions it used in testing for impairment are reasonable, significant changes in any one of the Company's assumptions could produce a significantly different result. The Company performs its annual impairment review of the Asia-Pacific reporting unit in the fourth quarter; however, the Company has noted no indications of impairment as of September 30, 2008.

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

	September 30, 2008	December 31, 2007
Goodwill:		
Asia-Pacific	$ 18,088	$ 18,010
Europe	393,020	424,916
	411,108	442,926
Other intangibles:		
Intangible asset – customer contracts	69,084	69,209
Intangible asset – leases	5,035	5,254
Intangible asset – tradename	419	361
Intangible asset – workforce	160	160
Intangible asset – lease expenses	111	111
Intangible asset – non-compete	65	
	74,874	75,095
Accumulated amortization	(12,523)	(7,888)
	62,351	67,207
	$ 473,459	$ 510,133

As a result of the Virtu Acquisition, the Company recorded goodwill of $16,973,000 and intangible assets, comprised primarily of customer contracts, of $7,195,000. The customer contracts intangible asset is being amortized over an estimated useful life of 12 years. The Company's goodwill and intangible assets in Europe are assets denominated in British pounds and Euros and goodwill in Asia-Pacific is denominated in Singapore dollars and are subject to foreign currency fluctuations. The Company's foreign currency translation gains and losses, including goodwill and other 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, 2008, the Company recorded amortization expense of $1,690,000 and $5,236,000, respectively. For the three and nine months ended September 30, 2007, the Company recorded amortization expense of $423,000 and $689,000, respectively. The Company expects to record the following amortization expense during the remainder of 2008 and beyond (in thousands):

Year ending:	
2008 (three months remaining)	$ 1,726
2009	6,223
2010	6,188
2011	6,089
2012	6,071
2013 and thereafter	36,054
Total	$ 62,351

Derivatives and Hedging Activities

The Company follows SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended ("SFAS 133"), which requires the Company to recognize all derivatives on the consolidated balance sheet at fair value. The accounting for changes in the value of a derivative depends on whether the contract is for trading purposes or has been designated and qualifies for hedge accounting. In order to qualify for hedge accounting, a derivative must be considered highly effective at reducing the risk associated with the exposure being hedged. In order for a derivative to be designated as a hedge, there must be documentation of the risk management objective and strategy, including identification of the hedging instrument, the hedged item and the risk exposure, and how effectiveness is to be assessed prospectively and retrospectively.

To assess effectiveness, the Company uses a regression analysis. The extent to which a hedging instrument has been and is expected to continue to be effective at achieving offsetting changes in cash flows is assessed and documented at least quarterly. Any ineffectiveness is reported in current-period earnings. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. For qualifying cash flow hedges, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income (loss) and recognized in the condensed consolidated statements of operations when the hedged cash flows affect earnings. The ineffective portions of cash flow hedges are immediately recognized in earnings. If the hedge relationship is terminated, then the change in fair value of the derivative recorded in other comprehensive income (loss) is recognized when the cash flows that were hedged occur, consistent with the original hedge strategy. For hedge relationships discontinued because the forecasted transaction is not expected to occur according to the original strategy, any related derivative amounts recorded in other comprehensive income (loss) are immediately recognized in earnings.

Cash Flow Hedges – Interest Rate Swaps

The Company has variable-rate debt financing. These obligations expose the Company to variability in interest payments and therefore fluctuations in interest expense due to changes in interest rates. Interest rate swap contracts are used in the Company's risk management activities in order to minimize significant fluctuations in earnings that are caused by interest rate volatility. Interest rate swaps involve the exchange of variable-rate interest payments for

fixed-rate interest payments based on the contractual underlying notional amount. Gains and losses on the interest rate swaps that are linked to the debt being hedged are expected to substantially offset this variability in earnings.

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In May 2008, the Company entered into several interest rate swaps in order to minimize variability related to its variable-rate Chicago IBX Financing and European Financing (see Note 12 – Debt Facilities and Other Financing Obligations). The Company also designated two existing interest rate swaps acquired in the IXEurope Acquisition as effective cash flow hedge relationships with the European Financing. Each of these hedge relationships were highly effective at achieving offsetting changes in cash flows as of September 30, 2008 with an insignificant amount of ineffectiveness recorded in interest expense on the accompanying condensed consolidated statements of operations. As of September 30, 2008, the Company had the following interest rate swaps in place (in thousands):

	As of September 30, 2008		
	Notional Amount	Fair Value1)	Loss (2)
Liabilities:			
European Financing interest rate swaps	$ 113,710	$ (1,602)	$ (1,832)
Chicago IBX Financing interest rate swap	105,000	(513)	(513)
	$ 218,710	$ (2,115)	$ (2,345)

(1) Included in the condensed consolidated balance sheets within prepaids and other current assets or deferred rent and other liabilities.

(2) Included in the condensed consolidated balance sheets within other comprehensive income (loss).

Other Derivatives – Foreign Currency Forward Contracts

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 SFAS 133. Gains and losses on these contracts are included in other income (expense), net, along with those gains and losses of the related hedged items. The Company entered into various foreign currency forward contracts during the three months ended September 30, 2008. As of September 30, 2008, the Company recorded a net asset of $2,944,000 representing the fair values of these foreign currency forward contracts, which is recorded within prepaids and other current assets in the accompanying condensed consolidated balance sheet.

Fair Value Measurements

Effective January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). This standard establishes a framework for measuring fair value and expands disclosure about fair value measurements. The Company did not elect to adopt fair value accounting for any assets or liabilities allowed by SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). The adoption of SFAS 157 did not have a material impact on the Company's financial position, results of operations or operating cash flow.

To increase consistency and comparability in fair value measurements, SFAS 157 establishes a fair value hierarchy to prioritize the inputs used in valuation techniques. There are three broad levels to the fair value hierarchy of inputs to fair value (Level 1 being the highest priority and Level 3 being the lowest priority) as follows:

- Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2: Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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- Level 3: Unobservable inputs reflecting the Company's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

The Company measures and reports certain financial assets and liabilities at fair value on a recurring basis, including its investments in money market funds and available-for-sale debt investments in other public companies, governmental units and other agencies and derivatives.

The Company's assets and liabilities measured at fair value at September 30, 2008 were as follows (in thousands):

	Fair value at September 30, 2008	Fair value measurement using		
		Level 1	Level 2	Level 3
Assets:				
Money market	$ 41,538	$ 41,538	$	$
Reserve fund at cost	49,422			49,422
Commercial paper	24,329		24,329	
U.S. government and agency obligations	123,625		123,625	
Corporate bonds	43,179		43,179	
Asset-backed securities	32,904		32,904	
Certificates of deposits	13,976		13,976	
Other securities	1,226		1,226	
Derivative assets (1)	3,004		3,004	
	$ 333,203	$ 41,538	$ 242,243	$ 49,422
Liabilities:				
Derivative liabilities (2)	(2,174)		(2,174)	
	$ (2,174)	$	$ (2,174)	$

(1) Included in the condensed consolidated balance sheets within prepaids and other current assets and other assets.

(2) Included in the condensed consolidated balance sheets within other current liabilities and deferred rent and other liabilities.

The fair value of the Company's investments in available-for-sale money market funds approximates their face value. Such instruments are included in cash equivalents. These securities include 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. However, money market funds held by The Reserve Primary Fund (the "Reserve"), whose carrying value of $50,949,000 was in excess of fair value, accordingly an other-than-temporary impairment charge of $1,527,000 was recorded in September 2008 to reflect the adjusted cost of $49,422,000 (see Note 5). The money market funds held in the Reserve, normally classified as Level 1 securities, were re-designated as Level 3 securities in September 2008. The impairment charge of $1,527,000 related to the Reserve is reflected in interest income on the accompanying condensed consolidated statements of operations.

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.

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

The Company's money market fund instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted prices for identical instruments in active markets. However, the Reserve experienced a decline in its fair value as a result of its exposure to investments held in Lehman Brothers Holdings, Inc. ("Lehman Brothers") which filed for Chapter 11 bankruptcy protection. The Company recorded a loss on its investments in the Reserve and each of the individual securities which comprise the holdings in the Reserve were further evaluated. The Company has re-designated its investment in the Reserve from cash and cash equivalents to short-term investments at adjusted cost (for further information, refer to Note 5). This re-designation is included in purchases of investments in investing activities in the Company's accompanying condensed consolidated statements of cash flows. The Company conducted its fair value assessment of the Reserve using Level 2 and Level 3 inputs. Management has reviewed the Reserve's underlying securities portfolio which is substantially comprised of discount notes, certificates of deposit and commercial paper issued by highly-rated institutions. The Company has used a pricing service to assist in its review of fair value of the underlying portfolio, which estimates fair value of some instruments using proprietary models based on assumptions as to term, maturity dates, rates, credit risk, etc. Normally, the Company would classify such an investment within Level 2 of the fair value hierarchy. However, management also evaluated the fair value of its unit interest in the Reserve itself, considering risk of collection, timing and other factors. These assumptions are inherently subjective and involve significant management judgment. As a result, the Company has classified its holdings in the Reserve within Level 3 of the fair value hierarchy.

The Company considers each category of investments held to be an asset group. The asset groups held at September 30, 2008 were U.S. government and agency securities, corporate notes, commercial paper and asset backed securities. The Company's fair value assessment includes an evaluation by each of these asset groups, all of which continue to be classified within Level 2 of the fair value hierarchy.

The types of instruments valued based on other observable inputs include available-for-sale debt investments in other public companies, governmental units and other agencies. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Short-Term and Long-Term Investments. The Company uses the specific identification method in computing realized gains or losses. Except for the Reserve, which is carried at its adjusted cost, short-term and long-term investments are classified as "available-for-sale" and are carried at fair value based on quoted market prices with unrealized gains and losses reported in stockholders' equity as a component of other comprehensive income or loss. 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. The Company determined that these quoted market prices qualify as Level 1 and Level 2.

Derivative Assets and Liabilities. In determining the fair value of the Company's interest rate swap derivatives, the Company uses the present value of expected cash flows based on observable market interest rate curves and volatilities commensurate with the term of each instrument and the credit valuation adjustments to appropriately reflect both the Company's own nonperformance risk and the counterparty's nonperformance risk. For foreign currency derivatives, the Company's approach is to use forward contract and option valuation models employing market observable inputs, such as spot currency rates, time value and option volatilities and adjust for the credit default swap market. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit risk valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2008, the Company had assessed the significance of the impact of the credit risk valuation adjustments on the overall valuation of its derivative positions and had determined that the credit risk

valuation adjustments were not significant to the overall valuation of its derivatives.

2. Virtu Acquisition

On February 5, 2008, a wholly-owned subsidiary of the Company acquired all of the issued and outstanding share capital of Virtu Secure Webservices B.V. ("Virtu"), a provider of network-neutral data center services in the Netherlands, for a cash payment of $23,345,000, including closing costs (the "Virtu Acquisition"). Under the terms of the Virtu Acquisition, the Company may also pay additional future contingent consideration, which will be payable in the form of up to 20,000 shares of the Company's common stock and cash of up to 1,500,000 Euros, contingent upon meeting certain pre-determined future annual operating targets from 2008 to 2011. Such contingent consideration, if paid, will be recorded as additional goodwill. Virtu, a similar business to that of the Company, operates data centers in the Netherlands, supplementing the Company's existing European operations. The combined company predominantly operates under the Equinix name. The results of operations for Virtu are insignificant; therefore, the Company does not present pro forma combined results of operations.

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3. IBX Acquisitions and Expansions

Paris IBX Expansion Project

In September 2008, the Company entered into a long-term lease for a new building located adjacent to one of its existing Paris IBX centers. The lease, which is an operating lease, commenced on October 1, 2008. Cumulative minimum monthly payments under the lease total 44,568,000 Euros, or approximately $62,805,000. Monthly payments under the lease commence in April 2009 and are payable through September 2020.

Sydney IBX Expansion Project

In January 2008, the Company entered into a long-term lease for a new building located adjacent to its existing Sydney IBX center and at the same time terminated the existing lease for the Company's original Sydney IBX center by incorporating it into the new lease. The Company extended the original lease term for an additional seven years in a single, revised lease agreement for both buildings (collectively, the "Building"). Cumulative minimum payments under this lease total 18,260,000 Australian dollars, or approximately $14,500,000, of which 12,202,000 Australian dollars, or approximately $9,700,000, is incremental to the previous lease. Payments are due monthly and commenced in January 2008. As a result of the Company significantly altering the Building's footprint in order to meet the Company's IBX center needs, the Company followed the accounting provisions of EITF 97-10, "The Effect of Lessee Involvement in Asset Construction" ("EITF 97-10"). Pursuant to EITF 97-10, the Building is considered a financed asset (the "Sydney IBX Building Financing") and subject to a ground lease for the underlying land, which is considered an operating lease. Pursuant to the Sydney IBX Building Financing, the Company recorded the Building asset and a corresponding financing obligation liability totaling 5,805,000 Australian dollars (or approximately $4,600,000) in January 2008. Monthly payments under the Sydney IBX Building Financing, which commenced in January 2008, are payable through December 2022, at an effective interest rate of approximately 7.90% per annum.

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IBX Expansion Project Summary

The following table sets forth approximate balances of total cumulative capital expenditures, excluding cost of acquisition of land and building, if any, incurred on the Company's significant expansion projects which were underway as of either of the following dates (in thousands):

	September 30, 2008	December 31, 2007
U.S. Expansion Projects:		
Washington, D.C. Metro Area Fifth IBX Center Expansion Project (DC5)	$ 77,637	$ 20,000
Silicon Valley Metro Area IBX Expansion Project (SV2 Phase II)	38,931	25,283
Los Angeles Metro Area IBX Expansion Project (LA4 Phase I)	23,424	4,321
New York Metro Area IBX Expansion Project (NY4 Phase II))	18,526	
	158,518	49,604
Asia-Pacific Expansion Projects:		
Tokyo IBX Expansion Project (TY2)	26,894	16,600
Singapore IBX Expansion Project (SG1 Expansion Phase II and III)	29,404	15,500
Sydney IBX Expansion Project (SY2)	17,985	
Hong Kong IBX Expansion Project (HK1 Phase II)	16,469	
	90,752	32,100
Europe Expansion Projects:		
Paris IBX Expansion Project (PA2 Phase II and III)	25,457	8,513
Frankfurt IBX Expansion Project (FR2 Phase II(a) and II(b))	29,302	4,177
London IBX Expansion Project (LD4 Phase II)	28,102	5,529
Amsterdam IBX Expansion Project (AM1 Phase I)	9,453	
	92,314	18,219
	$ 341,584	$ 99,923

The Company's planned capital expenditures during the remainder of 2008 in connection with the expansion efforts described above are substantial. For further information, refer to "Other Purchase Commitments" in Note 13.

4. Related Party Transactions

The Company has several significant stockholders, and other related parties, that are also customers and/or vendors. For the three and nine months ended September 30, 2008, revenues recognized with these related parties were $6,662,000 and $14,266,000, respectively. For the three and nine months ended September 30, 2007, revenues recognized with these related parties were $2,345,000 and $6,322,000, respectively. As of September 30, 2008 and 2007, accounts receivable with these related parties were $5,386,000 and $1,952,000, respectively. For the three and nine months ended September 30, 2008, costs and services procured with these related parties were $735,000 and $2,250,000, respectively. For the three and nine months ended September 30, 2007, costs and services procured with these related parties were $284,000 and $921,000, respectively. As of September 30, 2008 and 2007, accounts payable with these related parties were $87,000 and $144,000, respectively.

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

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

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

	September 30, 2008	December 31, 2007
Money market	$ 41,538	$ 272,099
Reserve fund at cost	49,422	
Commercial paper	24,329	24,218
U.S. government and agency obligations	123,625	32,801
Corporate bonds	43,179	36,604
Asset-backed securities	32,904	16,578
Certificates of deposits	13,976	1,600
Other securities	1,226	
Total available-for-sale securities	330,199	383,900
Less amounts classified as cash and cash equivalents	(160,685)	(290,633)
Total securities classified as investments	169,514	93,267
Less amounts classified as short-term investments	(101,892)	(63,301)
Total market value of long-term investments	$ 67,622	$ 29,966

As of September 30, 2008 and December 31, 2007, cash equivalents included investments which were readily convertible to cash and had 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, 2008 and December 31, 2007. The maturities of securities classified as long-term investments were greater than one year and less than three years as of September 30, 2008 and December 31, 2007.

In the period ended September 30, 2008, the Company recorded a $1,527,000 realized loss resulting from its investments in the Reserve, a prime obligations money market fund that suffered a decline in its Net Asset Value ("NAV") of below $1 per share when the Reserve valued its exposure to investments in Lehman Brothers at zero value. The Reserve held investments in commercial paper and short term-notes issued by Lehman Brothers, which filed for Chapter 11 bankruptcy protection in September 2008. This realized loss is included in interest income in the Company's accompanying condensed consolidated statements of operations. The Company has issued a redemption notice to redeem in full all of its holdings with the Reserve. As of September 30, 2008, the fair value of the funds held by the Reserve totaled $49,422,000.

The Company expects that distributions from the Reserve will occur over the remaining 12 months as the investments held in the fund mature. The Reserve has announced that this fund is in liquidation and they are currently working with their auditors to determine an accurate distribution of their account holdings. As of September 30, 2008, the Company has classified its investment in the Reserve as a short-term investment on its condensed consolidated balance sheet. This classification is based on the Company's internal assessment of each of the individual securities which make-up the underlying portfolio holdings in the Reserve, which primarily consisted of commercial paper and discount notes having maturity dates within the next 12 months. While the Company expects to receive substantially all of its current holdings in the Reserve within the next 12 months, it is possible the Company may encounter difficulties in receiving distributions given the current credit market conditions. If market conditions were to

deteriorate even further such that the current fair value were not achievable, or if the Reserve is delayed in its ability to accurately complete their account reconciliations, the Company could realize additional losses in its holdings with the Reserve and distributions could be further delayed.

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As of September 30, 2008, the Company's net unrealized gains (losses) on its available-for-sale securities were comprised of the following (in thousands):

	Unrealized gains	Unrealized losses	Net unrealized losses
Cash and cash equivalents	$ —	$ (30)	$ (30)
Short-term investments	11	(336)	(325)
Long-term investments	69	(486)	(418)
	$ 80	$ (852)	$ (773)

The following table summarizes the fair value and gross unrealized losses related to 119 available-for-sale securities with an aggregate cost basis of $193,111,000, aggregated by type of investment and length of time that individual securities have been in continuous unrealized loss position, as of September 30, 2008 (in thousands):

	Securities in a loss position for less than 12 months		Securities in a loss position for 12 months or more	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
U.S. government & agency obligations	$ 96,429	$ (120)	$ —	$ —
Commercial paper	24,329	(25)	—	—
Corporate bonds	29,931	(439)	—	—
Asset-backed securities	27,594	(240)	—	—
Certificates of deposit	13,976	(28)	—	—
	$ 192,259	$ (852)	$ —	$ —

While the Company does not believe it holds investments that are other-than-temporarily impaired, as of September 30, 2008, the Company's investments are subject to the currently adverse market conditions, which include constraints related to liquidity. If market conditions continue to deteriorate and liquidity constraints become even more pronounced, the Company could sustain further other-than-temporary impairments to its investment portfolio which could result in additional realized losses being recorded against net interest income or securities markets could become inactive which could affect the liquidity of the Company's investments. As securities mature, the Company has reinvested the proceeds in U.S. government securities, such as Treasury bills and Treasury notes, of a short-term duration and lower yield. As a result, the Company expects to recognize lower interest income in future periods.

6. Accounts Receivable

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

	September 30, 2008	December 31, 2007

Accounts receivable	$ 112,610	$ 98,141
Unearned revenue	(48,797)	(37,606)
Allowance for doubtful accounts	(1,437)	(446)
	$ 62,376	$ 60,089

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

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7. Prepaids and Other Current Assets

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

	September 30, 2008	December 31, 2007
Prepaid expenses	$ 10,229	$ 6,979
Foreign exchange forward contract receivables	2,944	—
Taxes receivable	2,295	3,437
Interest rate swap receivables	60	—
Other current assets	2,173	2,322
	$ 17,701	$ 12,738

8. Property and Equipment

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

	September 30, 2008	December 31, 2007
IBX plant and machinery	$ 629,825	$ 503,755
Leasehold improvements	539,079	481,409
Buildings	156,510	153,692
Site improvements	149,061	96,041
IBX equipment	138,306	128,423
Computer equipment and software	69,429	60,881
Land	50,139	50,979
Furniture and fixtures	8,128	5,698
Construction in progress	170,174	133,501
	1,910,651	1,614,379
Less accumulated depreciation	(563,669)	(451,659)
	$ 1,346,982	$ 1,162,720

Leasehold improvements, IBX plant and machinery, computer equipment and software and buildings recorded under capital leases aggregated $40,807,000 and $40,486,000 at September 30, 2008 and December 31, 2007, respectively. Amortization on the assets recorded under capital leases is included in depreciation expense and accumulated depreciation on such assets totaled $10,407,000 and $7,539,000 as of September 30, 2008 and December 31, 2007, respectively.

As of September 30, 2008 and December 31, 2007, the Company had accrued property and equipment expenditures of $56,537,000 and $76,504,000, respectively. The Company's planned capital expenditures during the remainder of 2008 in connection with recently acquired IBX properties and expansion efforts are substantial. For further information, refer to "Other Purchase Commitments" in Note 13.

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9. Accounts Payable and Accrued Expenses

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

	September 30, 2008	December 31, 2007
Accounts payable	$ 11,797	$ 14,816
Accrued compensation and benefits	20,143	18,875
Accrued utility and security	12,447	8,709
Accrued interest	10,220	6,461
Accrued taxes	7,643	6,925
Accrued professional fees	2,024	2,094
Accrued other	6,960	7,216
	$ 71,234	$ 65,096

10. Other Current Liabilities

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

	September 30, 2008	December 31, 2007
Deferred installation revenue	$ 20,432	$ 16,295
Customer deposits	5,609	4,643
Deferred recurring revenue	3,483	3,811
Accrued restructuring charges	3,172	3,973
Deferred rent	409	400
Other current liabilities	478	351
	$ 33,583	$ 29,473

11. Deferred Rent and Other Liabilities

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

	September 30, 2008	December 31, 2007
Deferred rent, non-current	$ 29,490	$ 26,512
Deferred installation revenue, non-current	14,526	10,241
Asset retirement obligations	11,280	8,759
Accrued restructuring charges, non-current	8,296	8,167
Customer deposits, non-current	6,077	4,201

Deferred recurring revenue, non-current		5,467		5,745
Interest rate swap payables		2,174		—
Other liabilities		561		639
	$	77,871	$	64,264

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

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12. Debt Facilities and Other Financing Obligations

Chicago IBX Financing

During the nine months ended September 30, 2008, the Company received additional advances under the Chicago IBX Financing totaling $4,379,000, bringing the cumulative and final loan payable to $109,991,000. The loan payable under the Chicago IBX Financing bears interest at a floating rate. As of September 30, 2008, the loan payable carried an approximate interest rate of 5.25% per annum.

The loan payable under the Chicago IBX Financing has a maturity date of January 31, 2010, with options to extend for up to an additional two years, in one-year increments, upon satisfaction of certain extension conditions. The Chicago IBX Financing is collateralized by the assets of one of the Company's Chicago IBX centers.

In May 2008, the Company entered into an interest rate swap agreement with one counterparty to hedge the interest payments on a $105,000,000 notional amount of the Chicago IBX Financing, which will mature in February 2011. Under the terms of the interest rate swap transaction, the Company receives interest payments based on rolling one-month LIBOR terms and pays interest at the fixed rate of 6.34%. The Company's disclosures on derivatives and fair value are contained in Note 1 – Derivative and Hedging Activities and Fair Value Measurements.

Asia-Pacific Financing

In January 2008, the Asia-Pacific Financing was amended to enable the Company's subsidiary in Australia to borrow up to 32,000,000 Australian dollars, or approximately $25,357,000, under the same general terms, amending the Asia-Pacific Financing into an approximately $69,017,000 multi-currency credit facility agreement. In June 2008, the Asia-Pacific Financing was further amended to enable the Company's subsidiary in Hong Kong to borrow up to 156,000,000 Hong Kong dollars, or approximately $20,093,000, under the same general terms, amending the Asia-Pacific Financing into an approximately $89,110,000 multi-currency credit facility agreement. Loans payable under the Asia-Pacific Financing bear interest at floating rates.

Loans payable under the Asia-Pacific Financing have a final maturity date of June 2012. The Asia-Pacific Financing is guaranteed by the parent, Equinix, Inc., is secured by the assets of the Company's subsidiaries in Japan, Singapore, Hong Kong and Australia, including a pledge of their shares, and has several financial covenants, with which the Company must comply quarterly. As of September 30, 2008, the Company was in compliance with all financial covenants associated with the Asia-Pacific Financing.

As of September 30, 2008, the Company had borrowed 23,000,000 Singapore dollars, or approximately $16,024,000, at an approximate interest rate per annum of 3.04%; 2,932,500,000 Japanese yen, or approximately $27,636,000, at an approximate interest rate per annum of 2.70%; 13,210,000 Australian dollars, or approximately $10,468,000, at an approximate interest rate per annum of 9.06%; and 87,776,000 Hong Kong dollars, or approximately $11,305,000, at an approximate interest rate per annum of 5.51%. Collectively, the total amount borrowed was approximately equal to $65,433,000, leaving approximately $23,677,000 available to borrow under the Asia-Pacific Financing.

European Financing

During the nine months ended September 30, 2008, the Company received additional advances totaling approximately 29,351,000 British pounds, or approximately $57,089,000, under the European Financing, leaving the amount

available to borrow under the European Financing totaling approximately 9,627,000 British pounds, or approximately $17,141,000. As of September 30, 2008, a total of approximately 71,822,000 British pounds, or approximately $127,879,000, was outstanding under the European Financing with an approximate blended interest rate of 7.78% per annum. Loans payable under the European Financing bear interest at floating rates. The European Financing is available to fund certain of the Company's expansion projects in France, Germany, Switzerland and the United Kingdom.

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Loans payable under the European Financing have a final maturity date of June 2014. The European Financing is collateralized by certain of the Company's assets in Europe and contains several financial covenants with which the Company must comply quarterly. As of September 30, 2008, the Company was in compliance with all financial covenants associated with the European Financing.

In May 2008, the Company entered into three interest rate swap agreements and re-designated two older ineffective interest rate swap agreements with a total of two counterparties to hedge the interest payments on the equivalent of $113,710,000 notional amount of the European Financing, which will mature in August 2009 and May 2011. Under the terms of the interest rate swap transactions, the Company receives interest payments based on rolling one-month EURIBOR and LIBOR terms and pays fixed interest rates ranging from 5.97% to 8.16%. The Company's disclosures on derivatives and fair value are contained in Note 1 – Derivative and Hedging Activities and Fair Value Measurements.

Netherlands Financing

In February 2008, as a result of the Virtu Acquisition, a wholly-owned subsidiary of the Company assumed senior credit facilities totaling approximately 5,500,000 Euros (the "Netherlands Financing"), which are callable by the lender and bear interest at a floating rate (three month EURIBOR plus 1.25%). As of September 30, 2008, a total of 4,319,000 Euros, or approximately $6,087,000, was outstanding under the Netherlands Financing with an approximate blended interest rate of 6.53% per annum. The Netherlands Financing is collateralized by substantially all of the Company's operations in the Netherlands. The Netherlands Financing contains several financial covenants, which must be complied with on an annual basis. The Company's wholly-owned subsidiary in the Netherlands was not in compliance with the December 31, 2007 financial covenants; however, in April 2008, the Company obtained a waiver from the lender for such non-compliance. Although the Netherlands Financing has a payment schedule with a final payment date in January 2016, as of September 30, 2008, the Company had reflected the total amount outstanding under the Netherlands Financing as a current liability within the current portion of mortgage and loans payable on the accompanying balance sheet as it is not currently a committed facility.

Silicon Valley Bank Credit Line

In February 2008, the Company terminated the Silicon Valley Bank Credit Line. As a result, all letters of credit previously issued under the Silicon Valley Bank Credit Line, totaling $12,144,000, were cash collateralized. The Company reports such restricted cash within other assets on the accompanying balance sheets. As of the termination date, the Company had no borrowings outstanding under the Silicon Valley Bank Credit Line and no termination penalties were incurred.

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

Maturities

Combined aggregate maturities for the Company's various debt facilities and other financing obligations as of September 30, 2008 were as follows (in thousands):

	Convertible debt (1)	Mortgage and loans payable (1)	Capital lease and other financing obligations (2)	Total
2008 (three months remaining)	$	$ 13,784	$ 2,943	$ 16,727
2009	32,250	40,484	11,879	84,613
2010		149,378 (3)	11,930	161,308
2011		37,854	12,039	49,893
2012	250,000	25,380	11,729	287,109
2013 and thereafter	395,986	149,478	111,717	657,181
	678,236	416,358	162,237	1,256,831
Less amount representing interest			(73,516)	(73,516)
Plus amount representing residual property value			10,360	10,360
	678,236	416,358	99,081	1,193,675
Less current portion of principal	(32,250)	(41,486)	(3,986)	(77,722)
	$ 645,986	$ 374,872	$ 95,095	$ 1,115,953

(1) Represents principal only.

(2) Represents principal and interest in accordance with minimum lease payments.

(3) The loan payable under the Chicago IBX Financing has a maturity date of January 31, 2010, with options to extend for up to an additional two years, in one-year increments, upon satisfaction of certain extension conditions.

13. Commitments and Contingencies

Legal Matters

On July 30, 2001 and August 8, 2001, putative shareholder class action lawsuits were filed against the Company, certain of its officers and directors (the "Individual Defendants"), and several investment banks that were underwriters of the Company's initial public offering (the "Underwriter Defendants"). The cases were filed in the United States District Court for the Southern District of New York. Similar lawsuits were filed against approximately 300 other issuers and related parties. The purported class action alleges violations of Sections 11 and 15 of the Securities Act of 1933 and Sections 10(b), Rule 10b-5 and 20(a) of the Securities Exchange Act of 1934 against the Company and the Individual Defendants. The plaintiffs have since dismissed the Individual Defendants without prejudice. The suits allege that the Underwriter Defendants agreed to allocate stock in the Company's initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make

additional purchases in the aftermarket at pre-determined prices. The plaintiffs allege that the prospectus for the Company's initial public offering was false and misleading and in violation of the securities laws because it did not disclose these arrangements. The action seeks damages in an unspecified amount. On February 19, 2003, the Court dismissed the Section 10(b) claim against the Company, but denied the motion to dismiss the Section 11 claim. On December 5, 2006, the Second Circuit vacated a decision by the district court granting class certification in six "focus" cases, which are intended to serve as test cases. Plaintiffs selected these six cases, which do not include Equinix. On April 6, 2007, the Second Circuit denied a petition for rehearing filed by plaintiffs, but noted that plaintiffs could ask the district court to certify more narrow classes than those that were rejected. On August 14, 2007, plaintiffs filed amended complaints in the six focus cases. On September 27, 2007, plaintiffs moved to certify a class in the six focus cases. On November 14, 2007, the issuers and the underwriters named as defendants in the six focus cases moved to dismiss the amended complaints against them. On March 26, 2008, the district court dismissed the Section 11 claims of those members of the putative classes in the focus cases who sold their securities for a price in excess of the initial offering price and those who purchased outside the previously certified class period. With respect to all other claims, the motions to dismiss were denied. On October 10, 2008, at the request of the plaintiffs, plaintiffs' motion for class certification was withdrawn, without prejudice.

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

On June 29, 2006 and September 18, 2006, shareholder derivative actions were filed in the Superior Court of the State of California, County of San Mateo, naming Equinix as a nominal defendant and several of Equinix's current and former officers and directors as individual defendants. These actions were consolidated, and the consolidated complaint was filed in January 2007. In March 2007, the state court stayed this action in deference to a federal shareholder derivative action filed in the United States District Court for the Northern District of California in October 2006. The federal action named Equinix as a nominal defendant and several current and former officers and directors as individual defendants. This complaint alleged that the individual defendants breached their fiduciary duties and violated California and federal securities laws as a result of purported backdating of stock options, insider trading and the dissemination of false statements. On April 12, 2007, the federal action was voluntarily dismissed without prejudice pursuant to a joint stipulation entered as an order by the court. On May 3, 2007, the state court lifted the stay on proceedings in the state court action. On March 3, 2008, the state court plaintiff filed a second amended consolidated complaint after the court granted two motions to dismiss prior complaints with leave to amend. The second amended consolidated complaint alleged that the individual defendants breached their fiduciary duties and violated California securities law as a result of purported backdating of stock option grants, insider trading and the dissemination of false financial statements. The second amended consolidated complaint sought to recover, on behalf of Equinix, unspecified monetary damages, corporate governance changes, equitable and injunctive relief, restitution and fees and costs. On July 8, 2008, the state court granted the Company's motion to dismiss the second amended consolidated complaint without leave to amend and entered a final judgment dismissing the action and all claims asserted therein in their entirety without leave to amend. The time for the state court plaintiff to appeal the judgment expired on September 9, 2008.

On August 22, 2008, a complaint was filed against the Company, 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 Hawaii, and arises out of December 2002 agreements pursuant to which the Company merged Pihana and i-STT (a subsidiary of Singapore Technologies Telemedia Pte Ltd) into the internet exchange services business of the Company. 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 the Company 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 the Company held by Defendants" (a group that includes more than 30 individuals and entities). An amended complaint, which adds new plaintiffs (other alleged holders of Pihana common stock) but is otherwise substantially similar to the original pleading, was filed on September 29, 2008. On October 13, 2008, a complaint was filed 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. The Company believes that plaintiffs' claims and alleged damages are without merit and it intends to defend the litigation vigorously.

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 these litigations is reasonably possible, a range of potential loss cannot be determined at this time. As a result, the Company has not accrued for any amounts in connection with these legal matters as of September 30, 2008. The Company and its officers and directors intend to

continue to defend the actions vigorously.

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

Other Purchase Commitments

Primarily as a result of the Company's various IBX expansion projects, as of September 30, 2008, the Company was contractually committed for $156,625,000 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, 2008, such as commitments to purchase power in select locations, primarily in the U.S., Australia, Germany, Singapore and the United Kingdom, through the remainder of 2008 and thereafter, and other open purchase orders for goods or services to be delivered or provided during the remainder of 2008 and thereafter. Such other miscellaneous purchase commitments totaled $73,154,000 as of September 30, 2008.

14. Other Comprehensive Income and Loss

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

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Net income	$ 7,389	$ 4,124	$ 15,039	$ 885
Unrealized gain (loss) on available for sale securities	(717)	271	(964)	269
Unrealized loss on interest rate swaps	(3,584)	—	(2,345)	—
Foreign currency translation gain (loss)	(64,097)	6,732	(57,361)	6,634
Comprehensive income (loss)	$ (61,009)	$ 11,127	$ (45,631)	$ 7,788

During the three months ended September 30, 2008, the U.S. dollar strengthened relative to certain of the currencies of the foreign countries in which the Company operates. This has significantly impacted the Company's consolidated financial position (as evidenced above in the Company's foreign currency translation losses), as well as its consolidated results of operations as amounts in foreign currencies are generally translating into less U.S. dollars. To the extent the U.S. dollar strengthens further, this will continue to have a significant impact to the Company's consolidated financial position and results of operations including the amount of revenue that the Company reports in future periods.

There were no significant tax effects on comprehensive income for the three and nine months ended September 30, 2008 and 2007.

15. Segment Information

The Company and its subsidiaries are principally engaged in a single reporting segment: the design, build-out and operation of network neutral IBX centers. Virtually all revenues result from the operation of these IBX centers. However, the Company operates in three distinct geographic regions, comprised of the U.S., Asia-Pacific and Europe. The Company's chief operating decision-maker evaluates performance, makes operating decisions and allocates resources based on financial data consistent with the presentation in the accompanying condensed consolidated financial statements and based on these three geographic regions. The Company has evaluated the criteria for aggregation of its geographic regions under SFAS No. 131, "Disclosures about Segments of an Enterprise

and Related Information", and believes it meets each of the respective criteria set forth therein. The Company's geographic regions have similar long-term economic characteristics and maintain similar sales forces, each of which offers all of the Company's services due to the similar nature of such services. In addition, the geographic regions utilize similar means for delivering the Company's services and have similarity in the types of customers.

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

While the Company believes it operates in one reporting segment, the Company nonetheless provides the following geographic disclosures (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Total revenues:				
United States	$ 114,859	$ 83,685	$ 321,302	$ 234,461
Asia-Pacific	21,579	14,643	60,356	40,813
Europe	47,297	5,454	132,339	5,454
	$ 183,735	$ 103,782	$ 513,997	$ 280,728
Total depreciation and amortization:				
United States	$ 26,898	$ 19,426	$ 73,987	$ 57,868
Asia-Pacific	4,355	2,521	12,298	5,812
Europe	10,340	1,311	29,061	1,311
	$ 41,593	$ 23,258	$ 115,346	$ 64,991
Income (loss) from operations:				
United States	$ 16,252	$ 6,386	$ 44,840	$ 8,000
Asia-Pacific	2,119	312	3,932	1,951
Europe	3,164	(619)	69	(619)
	$ 21,535	$ 6,079	$ 48,841	$ 9,332
Capital expenditures:				
United States	$ 36,971	$ 141,749	$ 129,852	$ 378,272
Asia-Pacific	33,021	9,445	75,232	35,350
Europe	25,453	544,446 (1)	123,703 (2)	544,446 (1)
	$ 95,445	$ 695,640	$ 328,787	$ 958,068

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(1) Includes the purchase price for IXEurope Acquisition, net of cash acquired, totaling $541,792,000.

(2) Includes the purchase price for Virtu Acquisition, net of cash acquired, totaling $23,241,000.

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

	September 30, 2008	December 31, 2007
United States	$ 1,062,568	$ 959,637
Asia-Pacific	155,128	91,478
Europe	731,585	703,992
	$ 1,949,281	$ 1,755,107

For information on the Company's goodwill, refer to "Goodwill and Other Intangible Assets" in Note 1.

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EQUINIX, INC.
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,	
	2008	2007	2008	2007
Colocation	$ 141,938	$ 75,282	$ 396,261	$ 200,682
Interconnection	24,357	18,798	69,897	53,171
Managed infrastructure	6,968	4,830	20,301	13,214
Rental	254	378	812	1,011
Recurring revenues	173,517	99,288	487,271	268,078
Non-recurring revenues	10,218	4,494	26,726	12,650
	$ 183,735	$ 103,782	$ 513,997	$ 280,728

No single customer accounted for 10% or greater of the Company's revenues for the three and nine months ended September 30, 2008 and 2007. No single customer accounted for 10% or greater of the Company's gross accounts receivable as of September 30, 2008 and December 31, 2007.

16. Restructuring Charges

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

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

A summary of the movement in the 2004 accrued restructuring charges from December 31, 2007 to September 30, 2008 is outlined as follows (in thousands):

	Accrued restructuring charge as of December 31, 2007	Accretion expense	Restructuring charge adjustment	Cash payments	Accrued restructuring charge as of September 30, 2008

Estimated lease exit costs	$	12,140	$	563	$	799	$	(2,034)	$	11,468
		12,140	$	563	$	799	$	(2,034)		11,468
Less current portion		(3,973)								(3,172)
	$	8,167							$	8,296

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

The Company recorded an additional restructuring charge of $799,000 as a result of revised sublease assumptions on one of these two excess space leases as new information became available during the three months ended September 30, 2008. As the Company currently has no plans to enter into lease terminations with either of the landlords associated with these two excess space leases, 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 deferred rent and other liabilities on the accompanying condensed consolidated balance sheets as of September 30, 2008 and December 31, 2007. The Company is contractually committed to these two excess space leases through 2015.

17. Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), “Business Combinations” (“SFAS 141(R)”). SFAS 141(R) replaces SFAS 141, “Business Combinations.” SFAS 141(R) establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired or a gain from a bargain purchase. SFAS 141R also determines disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of a fiscal year that begins on or after December 15, 2008 and there are also implications for acquisitions that occur prior to this date. The Company is currently evaluating the impact that the adoption of SFAS No. 141 (R) will have on its financial statements.

In December 2007, the FASB issued SFAS No. 160, “Non-controlling Interests in Consolidated Financial Statements” (“SFAS 160”). SFAS 160 amends ARB 51, Consolidated Financial Statements, and requires all entities to report non-controlling (minority) interests in subsidiaries within equity in the consolidated financial statements, but separate from the parent shareholders’ equity. SFAS 160 also requires any acquisitions or dispositions of non-controlling interests that do not result in a change of control to be accounted for as equity transactions. Further, SFAS 160 requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008. As of September 30, 2008, all of the Company’s subsidiaries were wholly-owned. As a result, SFAS 160 is not presently expected to impact the Company.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133” (“SFAS 161”). SFAS 161 requires enhanced disclosures about an entity’s derivative and hedging activities and, thereby, improves the transparency of financial reporting. SFAS 161 is effective for fiscal years beginning on or after November 15, 2008. The Company is currently evaluating the impact that the adoption of SFAS 161 will have on its financial statement disclosures.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, “Determination of the Useful Life of Intangible Assets” (“FSP FAS 142-3”). FSP FAS 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life or recognized intangible assets under SFAS 142, “Goodwill and Other Intangible Assets.” FSP FAS 142-3 applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The Company is currently evaluating the impact that the adoption of FSP FAS 142-3 will have on its financial statements.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion" ("FSP APB 14-1"). FSP APB 14-1 specifies that issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP APB 14-1 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact that the adoption of FSP APB 14-1 will have on its financial statements. The Company believes that FSP APB 14-1 will have a significant impact to the amount of interest expense the Company records commencing with the first quarter of 2009.

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

18. Subsequent Events

In October 2008, the Company received additional advances totaling approximately 3,200,000 British pounds, or approximately $5,600,000, under the European Financing with an approximate blended interest rate of 6.97% per annum. As a result, the remaining amount available to borrow under the European Financing totals approximately 6,400,000 British pounds or approximately $11,400,000.

In October 2008, the Company received additional advances totaling approximately 56,550,000 Hong Kong dollars, or approximately $7,300,000, under the Asia-Pacific Financing with an approximate interest rate of 5.48% per annum. As a result, the remaining amount available to borrow under the Asia-Pacific Financing totals approximately $16,350,000.

In October 2008, an indirect wholly-owned subsidiary of the Company entered into an agreement for lease for property and a warehouse building located in a suburb of London, England (the “Agreement for Lease”). The Agreement for Lease provides for the completion of certain works within a specified time frame and the entry into a definitive lease (the “Lease”) upon the completion of those works. The Lease will have a term of 20 years, with an option to terminate on the part of the tenant after 15 years upon six months’ prior notice, and a total cumulative rent obligation of approximately $41,607,000 over the first 15 years of the Lease. On the fifteenth anniversary of the Lease, the rent can be reviewed and adjusted to market rents, as set out in the Lease.

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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-statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a discrepancy include, but are not limited to, those discussed in "Liquidity and Capital Resources'' below and ''Risk Factors" in Item 1A of Part II of this Quarterly Report on Form 10-Q. All forward-looking statements in this document are based on information available to us as of the date of this Report and we assume no obligation to update any such forward-looking statements.

Overview

Equinix provides network neutral colocation, interconnection and managed services to enterprises, content companies, systems integrators and the world's largest network providers. On September 14, 2007, we completed the acquisition of IXEurope Plc, or IXEurope, headquartered in London, U.K., whereby IXEurope became our wholly-owned subsidiary. We refer to this transaction as the IXEurope acquisition. On February 5, 2008, we completed the acquisition of Virtu Secure Webservices B.V., or Virtu, based in the Netherlands, whereby Virtu became our wholly-owned subsidiary. We refer to this transaction as the Virtu acquisition. Virtu, a similar business to ours, operated network neutral data centers in the Netherlands, and the Virtu acquisition supplements our existing European operations. As of September 30, 2008, we operate IBX centers in the Chicago, Dallas, Los Angeles, New York, Silicon Valley and Washington, D.C. metro areas in the United States, Australia, Hong Kong, Japan and Singapore in the Asia-Pacific region, and France, Germany, the Netherlands, Switzerland and the United Kingdom in the Europe region.

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

Historically, our market has been served by large telecommunications carriers who have bundled their telecommunications products and services with their colocation offerings. Each of these colocation providers own and operate a network. We do not own or operate a network, yet have greater than 300 networks operating out of our IBX centers. As a result, we are able to offer our customers a substantial choice of networks given our network neutrality thereby allowing our customers to choose from numerous network service providers. We believe this is a distinct and sustainable competitive advantage.

On a consolidated basis, and excluding customers acquired in the Virtu acquisition, our customer count increased to 2,203 as of September 30, 2008 versus 1,881 as of December 30, 2007, an increase of 17%. Our utilization rate

represents the percentage of our cabinet space billing versus net sellable cabinet space available taking into account power limitations. Excluding the impact of the IXEurope and the Virtu acquisitions, our utilization rate increased to 78% as of September 30, 2008 versus 73% as of December 31, 2007; however, further excluding the impact of our IBX center expansion projects that have opened during the last 12 months, our utilization rate would have been 89% as of September 30, 2008. Our utilization rate varies from market to market among our IBX centers in our markets across the U.S., Asia-Pacific and Europe. We continue to monitor the available capacity in each of our selected markets. To the extent we have limited capacity available in a given market it may limit our ability for growth in that market. 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 draw our customers take from installed circuits, we have negotiated power consumption limitations with certain of our high power demand customers. This increased power consumption has driven the requirement to build out our new IBX centers to support power and cooling needs twice that of previous IBX centers. We could face power limitations in our centers even though we may have additional physical cabinet capacity available within a specific IBX center. This could have a negative impact on the available utilization capacity of a given center, which could have a negative impact on our ability to grow revenues, affecting our financial performance, operating results and cash flows.

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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 current market location, amount of incremental investment required by us in the targeted property, lead-time to break-even and in-place customers. Like our recent expansions and acquisitions, the right combination of these factors may be attractive to us. Dependent on the particular deal, these transactions may require upfront cash payments and additional capital expenditures or may be funded through long-term financing arrangements in order to bring these properties up to Equinix standards. Property expansion may be in the form of 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 are a significant component of our total revenues, comprising greater than 90% of our total revenues. Over the past few years, greater than half of our then existing customers order new services in any given quarter representing greater than half of the new orders received in each quarter.

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

Our U.S. revenues are derived primarily from colocation and interconnection services while our Asia-Pacific and Europe revenues are derived primarily from colocation and managed infrastructure services.

The largest cost components of our cost of revenues are depreciation, rental payments related to our leased IBX centers, utility costs, including electricity and bandwidth, IBX employees' salaries and benefits, including stock-based compensation, 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 add or open new IBX 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 increase in the future on a per-unit or fixed basis in addition to the variable increase related to the growth of 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.

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.

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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 headquarters office lease 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 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 to our growth. This is evident in the trends noted below in our discussion on our results of operations.

Critical Accounting Policies and Estimates

Equinix's financial statements and accompanying notes are prepared in accordance with generally accepted accounting principles in the United States of America. Preparing financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates and assumptions are affected by management's application of accounting policies. On an on-going basis, management evaluates its estimates and judgments. Critical accounting policies for Equinix that affect our more significant judgment and estimates used in the preparation of our condensed consolidated financial statements include accounting for business combinations, accounting for stock-based compensation, accounting for income taxes and accounting for restructuring charges, which are discussed in more detail under the caption "Critical Accounting Policies and Estimates" in our 2007 Annual Report on Form 10-K.

Results of Operations

Our results of operations for the three and nine months ended September 30, 2007 include the operations of IXEurope from September 14 to September 30, 2007, but do not include the operations of Virtu, as the Virtu acquisition closed on February 5, 2008. Our results of operations for the nine months ended September 30, 2008 include the operations of Virtu from February 5, 2008 to September 30, 2008.

Three Months Ended September 30, 2008 and 2007

Revenues. Our revenues for the three months ended September 30, 2008 and 2007 were split between the following revenue classifications and geographic regions (dollars in thousands):

	Three months ended September 30,				Change	
	2008	%	2007	%	$	%
U.S:						
Recurring revenues	$ 109,422	60%	$ 80,583	78%	$ 28,839	36%
Non-recurring revenues	5,437	3%	3,102	3%	2,335	75%
	114,859	63%	83,685	81%	31,174	37%
Asia-Pacific:						
Recurring revenues	19,921	11%	13,525	13%	6,396	47%
Non-recurring revenues	1,658	1%	1,118	1%	540	48%
	21,579	12%	14,643	14%	6,936	47%
Europe:						
Recurring revenues	44,174	24%	5,180	5%	38,994	753%
Non-recurring revenues	3,123	1%	274	0%	2,849	1040%
	47,297	25%	5,454	5%	41,843	767%

Total:									
Recurring revenues		173,517	95%		99,288	96%		74,229	75%
Non-recurring revenues		10,218	5%		4,494	4%		5,724	127%
	$	183,735	100%	$	103,782	100%	$	79,953	77%

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U.S. Revenues. The period over period growth in recurring revenues was primarily the result of an increase in orders from both our existing customers and new customers acquired 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 centers, as well as selective price increases in each of our IBX markets. During the three months ended September 30, 2008, we recorded $10.1 million of incremental revenues not generated during the same period of last year associated with our newly opened IBX centers or IBX center expansions in the Chicago, New York, and Washington, D.C. metro areas and with additional expansion activity currently taking place in the Los Angeles and New York metro areas. We expect our U.S. recurring revenues, particularly from colocation and interconnection services, to remain our most significant source of revenue for the foreseeable future.

Asia-Pacific Revenues. Our revenues from Singapore, the largest revenue contributor in this region, represented approximately 38% of the regional revenues for both the three months ended September 30, 2008 and 2007. As in the U.S., Asia-Pacific revenue growth was due to an increase in orders from both our existing customers and new customers acquired 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 centers, as well as selective price increases in each of our IBX markets. During the three months ended September 30, 2008, we recorded $3.7 million of incremental revenues not generated during the same period of last year associated with our new IBX center in Tokyo, which we acquired in December 2006, and from our IBX center expansions in Hong Kong and Singapore. We expect that our Asia-Pacific revenues will continue to grow in future periods as a result of our recently-opened IBX center expansions in the Hong Kong, Singapore and Tokyo metro areas and additional expansion activity currently taking place in the Singapore and Sydney metro areas.

Europe Revenues. Our revenues from the United Kingdom, the largest revenue contributor in this region, represented approximately 37% of the regional revenues for the three months ended September 30, 2008. We expect our Europe revenues to grow in future periods, as a result of our recently-opened IBX center expansions in the Amsterdam, Frankfurt, London and Paris metro areas and additional expansion activity currently taking place in the Amsterdam, London and Paris metro areas.

Cost of Revenues. Our cost of revenues for the three months ended September 30, 2008 and 2007 were split between the following geographic regions (dollars in thousands):

	Three months ended September 30,				Change	
	2008	%	2007	%	$	%
U.S.	$ 63,790	58%	$ 49,695	79%	$ 14,095	28%
Asia-Pacific	13,346	12%	9,165	15%	4,181	46%
Europe	32,727	30%	4,031	6%	28,696	712%
Total	$ 109,863	100%	$ 62,891	100%	$ 46,972	75%

	Three months ended September 30,	
	2008	2007
Cost of revenues as a percentage of revenues:		
U.S.	56%	59%
Asia-Pacific	62%	63%
Europe	69%	74%
Total	60%	61%

U.S. Cost of Revenues. U.S. cost of revenues for the three months ended September 30, 2008 and 2007 included $24.9 million and $17.5 million, respectively, of depreciation expense. Growth in depreciation expense was due to our IBX center expansion activity. Excluding depreciation expense, the increase in U.S. cost of revenues was primarily due to overall growth related to our revenue growth and costs associated with our expansion projects, including higher compensation costs and an increase in utility costs in line with increasing customer installations. We anticipate that our U.S. cost of revenues will continue to increase in the foreseeable future to the extent that the occupancy levels in our U.S. IBX centers increase and as our newly-opened IBX centers or IBX center expansions in the Chicago, New York, Silicon Valley and Washington, D.C. metro areas commence operations more fully during the remainder of 2008 and from our additional expansion activity currently taking place in the Los Angeles and New York metro areas. We expect U.S. cost of revenues to increase as we continue to grow our business; however, as a percentage of revenues, we expect it to decrease although this trend may periodically be impacted when a large expansion project opens and before it starts generating any meaningful revenue.

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Asia-Pacific Cost of Revenues. Asia-Pacific cost of revenues for the three months ended September 30, 2008 and 2007 included $4.2 million and $2.5 million, respectively, of depreciation expense. Growth in depreciation expense was due to our IBX center expansion activity. Excluding depreciation expense, the increase in Asia-Pacific cost of revenues was primarily the result of costs associated with our expansion projects and overall growth in connection with revenue growth, such as increasing utility and bandwidth costs in line with increasing customer installations and revenues attributed to customer growth, as well as additional rent expense associated with new leases in connection with the Hong Kong and Singapore expansion projects. We anticipate that our Asia-Pacific cost of revenues will increase in the foreseeable future in connection with overall revenue growth and from our additional expansion activity currently taking place in the Singapore and Sydney metro areas. We expect Asia-Pacific cost of revenues to increase as we continue to grow our business; however, as a percentage of revenues, we expect it to decrease although this trend may periodically be impacted when a large expansion project opens and before it starts generating any meaningful revenue.

Europe Cost of Revenues. Europe cost of revenues for the three months ended September 30, 2008 and 2007 included $8.3 million and $981,000, respectively, of depreciation expense. We anticipate our Europe cost of revenues will increase in future periods, both as we sell out the available space in our existing data centers and as our newly-opened IBX centers or IBX center expansions in the Amsterdam, Frankfurt, London and Paris metro areas commence operations more fully during the remainder of 2008 and from our additional expansion activity currently taking place in the Amsterdam, London and Paris metro area markets. We expect Europe cost of revenues to increase as we continue to grow our business; however, as a percentage of revenues, we expect it to decrease although this trend may periodically be impacted when a large expansion project opens and before it starts generating any meaningful revenue.

Sales and Marketing Expenses. Our sales and marketing expenses for the three months ended September 30, 2008 and 2007 were split between the following geographic regions (dollars in thousands):

	Three months ended September 30,				Change	
	2008	%	2007	%	$	%
U.S.	$ 9,628	60%	$ 7,454	77%	$ 2,174	29%
Asia-Pacific	2,200	14%	1,478	15%	722	49%
Europe	4,181	26%	698	8%	3,483	499%
Total	$ 16,009	100%	$ 9,630	100%	$ 6,379	66%