
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended December 31, 2003

OR

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

For the transition period from _____ to _____

Commission file number 000-31293

EQUINIX, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)

77-0487526
(IRS 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)

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

None

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

Common Stock, \$0.001

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common stock held by non-affiliates computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common stock, as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$71.3 million.

As of February 29, 2004, a total of 15,507,068 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III—Portions of the registrant's definitive Proxy Statement to be issued in conjunction with the registrant's 2004 Annual Meeting of Stockholders, which is expected to be filed not later than 120 days after the registrant's fiscal year ended December 31, 2003. Except as expressly incorporated by reference, the registrant's Proxy Statement shall not be deemed to be a part of this report on Form 10-K.

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FORM 10-K
DECEMBER 31, 2003
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PART I

ITEM 1. BUSINESS

The words “Equinix”, “we”, “our”, “ours”, “us” and the “Company” refer to Equinix, Inc. All statements in this discussion that are not historical are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding Equinix’s “expectations”, “beliefs”, “hopes”, “intentions”, “strategies” or the like. Such statements are based on management’s current expectations and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. Equinix cautions investors that there can be no assurance that actual results or business conditions will not differ materially from those projected or suggested in such forward-looking statements as a result of various factors, including, but not limited to, the risk factors discussed in this Annual Report on Form 10-K. Equinix expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Equinix’s expectations with regard thereto or any change in events, conditions, or circumstances on which any such statements are based.

Overview

Equinix provides network neutral colocation, interconnection and managed services to enterprises, content companies, systems integrators and the world’s largest networks. Through our 14 Internet Business Exchange hubs, or IBX hubs, in the U.S. and Asia customers can directly interconnect with each other for critical traffic exchange requirements. 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 hubs, we believe we have established a critical mass of customers. This critical mass and the resulting “network effect,” combined with our improved financial position gained through the completion of a series of financing transactions over the past 15 months, has allowed us to accelerate new customer growth and bookings. As a result of our fixed cost model, we believe this continued growth will drive higher incremental margins and increasing cash returns.

Our network neutral business model is a key differentiator for Equinix in the market. Because we do not operate a network, we are able to offer direct interconnection to the largest aggregation of bandwidth providers and Internet service providers. The world’s top tier Internet service providers, and numerous access networks, second tier providers and international carriers such as AT&T, British Telecom, Cable & Wireless, Level 3, MCI, NTT, SBC, SingTel, Sprint and Qwest are all currently located at our IBX hubs. Access to such a wide variety of networks has attracted 8 of the top 10 Internet properties and numerous other customers, including Amazon.com, Electronic Arts, Electronic Data Systems, Fujitsu, Gannett, Google, Hallmark, IBM, MSN, Sony, Ticketmaster, Washington Post and Yahoo!.

Our products and services are comprised of three types: Colocation, Interconnection, and Managed IT Infrastructure services.

- Colocation services include cabinets, power, operations space and storage space for our customers’ colocation needs.
- Interconnection services allow customers to trade network traffic with each other simply and easily.
- Managed IT infrastructure services allow our customers to leverage our significant telecommunication expertise, maximize the benefits of our IBX hubs and optimize their infrastructure and resources.

This market has historically been served by large telecommunications carriers who have bundled their telecommunications services with their colocation offerings. In mid-2003 two major telecommunications companies announced their plans to exit the U.S. market in order to focus on their core offerings. The majority of the assets from these companies have been sold to managed service providers and we believe we will continue to benefit from gaining customers who are displaced or choose to leave these providers because we offer access to a

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world-class choice of carriers and service providers. In December 2003, Equinix acquired a new IBX in Santa Clara, California, which will provide additional options to our customers in the Silicon Valley market. Strategically, Equinix will continue to look at attractive opportunities to grow our market share and selectively improve our footprint and service streams.

Recent Developments

Follow-on Equity Offering. On November 21, 2003, we sold 5,524,780 shares of our common stock at a purchase price of \$20.00 per share which resulted in gross proceeds to the Company of \$110,495,600 before deducting offering expenses and underwriting fees.

Convertible Subordinated Debenture Offering. On February 11, 2004, we sold \$75.0 million in aggregate principal of 2.5% convertible subordinated debentures due 2024 to qualified institutional buyers. Subsequently, on February 18, 2004, we sold an additional \$11.25 million of our debentures to the initial purchasers of these debentures. We used the net proceeds from this offering to repay all amounts outstanding under our credit facility and two of our other debt facilities. In addition, we intend to use the proceeds received to redeem our 13% senior notes. We have exercised our right to redeem all of our 13% senior notes, which have a total of \$30.5 million of principal outstanding and have sent a notice of redemption to the trustee. The effective date of the redemption is expected to be March 12, 2004. Lastly, all remaining proceeds will be used for general corporate purposes.

Industry Background

The Internet is a collection of numerous independent networks interconnected with each other to form a network of networks. Users on different networks are able to communicate with each other through interconnection between these networks. For example, when a user of the Internet sends an email to another user, assuming that each person uses a different network provider, the email must pass from one network to the other in order to get to the final destination.

In order to accommodate the rapid growth of Internet traffic, an organized approach for network interconnection was needed. The exchange of traffic between these networks became known as peering. Peering is when networks trade traffic at relatively equal amounts and set up agreements to trade traffic for free. At first, government and non-profit organizations established places where these networks could exchange traffic, or peer, with each other—these points were known as network access points, or NAPs. Over time, many NAPs became a natural extension of carrier services and were run by such companies as MFS (now a part of MCI), Sprint, Ameritech and Pacific Bell (both now known as SBC).

Ultimately, these NAPs were unable to scale with the growth of the Internet and the lack of “neutrality” by the carrier owners of these NAPs created a conflict of interest with the participants. This created a market need for network neutral interconnection points that could accommodate the rapidly growing need to increase performance for enterprise and consumer users of the Internet, especially with the rise of important content providers such as Microsoft, Yahoo!, America Online and others. In addition, the providers, as well as a growing number of enterprises required a more secure, reliable solution for direct connection to a variety of telecommunications networks as the importance of their Internet operations continued to grow.

To accommodate Internet traffic growth, the largest of these networks left the NAPs and began trading traffic by placing private circuits between each other. Peering which once occurred at the NAP locations were moved to these private circuits. Over the years, these circuits became expensive to expand and could not be built fast enough to accommodate the growth in traffic. This led to a need by the large carriers to find a more efficient way to trade traffic or peer. Customers have chosen Equinix for their peering operations because they are now able to reach all of the networks they peer with all in one location, with simple direct connections. Their ability to peer across the room, instead of across a metro area has increased the scalability of their operations while decreasing cost by upwards of 50%.

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Our IBX hubs are the next-generation interconnection points. They are designed to handle the scalability issues that exist between both large and small networks, as well as the interconnection between the emerging companies who have become critical to the Internet. We have been successful in uniting the major companies that make up the Internet infrastructure including AT&T, Cable & Wireless, Level 3, MCI, Qwest and Sprint. These companies, which constitute the world's largest top Internet service providers, together with most of the major broadband networks, including America Online, Comcast Corporation, Cox Communications, MSN and SBC, second tier backbones such as Global Crossing, Verio and WilTel, top international telecommunications carriers, including Bell Canada, British Telecom, Deutsche Telecom, France Telecom, Japan Telecom, KDDI, SingTel, StarHub, Telia and Telstra, and almost every fiber, sonet, Ethernet and competitive local exchange company, including Looking Glass Networks and OnFiber Communications, and incumbent local exchange company, including SBC and Verizon, are our customers and use us to interconnect with each other and their customers. Additionally, we provide an important industry leadership role in the area of exchange points and are consistently looked to as an industry expert and key influence in this subject matter.

Content providers and enterprises can now control their own network performance and destiny by choosing the various service providers they wish to work with and by establishing direct connections for this connectivity. For our customers, this represents significant cost savings and increased performance.

Our Solution

Our IBX hubs provide the environment and services to meet the networking and IT operations challenges facing enterprises, networks and Internet businesses today. As a result, we are able to provide the following key benefits to our customers:

Quality. Our IBX centers provide customers with a secure, high quality solution for their colocation needs. Enterprise and content companies have demanding requirements for data center uptime, security, power backup and other important attributes. We have designed our centers and processes to exceed the requirements for the most important financial institutions, government agencies and key enterprise brands such as Amazon.com, Hallmark, Macromedia, Sony and Ticketmaster. We have a track record of 99.9999% uptime and are continually testing and refining processes to ensure that we will continue to provide the stability and quality that customers expect.

Performance. Because we provide direct access to the providers that serve more than 90% of the world's Internet networks and users, customers can quickly, efficiently, cost-effectively and reliably exchange traffic with their network services providers for higher performance operations. Access to the more than 170 networks ensures high-quality interconnection. With the mass of networks present, global enterprises are increasingly looking at ways to provide network diversity and increase performance of their operations, and are utilizing our IBX hubs to ensure their IT infrastructures are operating at the interconnection hub of the Internet. By using multiple networks, customers are able to insure their operations in the event that one of their network service providers has a service interruption or restructuring in the business. The network service providers and geographic diversity we offer provides customers with the flexibility to enable the highest performing Internet operations.

Improved Economics. Our U.S. services such as Equinix GigE Exchange and Equinix Internet Core Exchange facilitate peering and dramatically reduce costs for critical transit, peering and traffic exchange operations by eliminating the costs of private peering or local loops. Networks such as Comcast, British Telecom and SBC and content providers such as Electronic Arts, Google, MSN and Yahoo! can save between 20% to 40% of bandwidth costs through the traffic exchange services we offer. In addition, in both the U.S. and Asia-Pacific, content companies and enterprises can save significant bandwidth costs because the number of networks housed within Equinix competing for the traffic of these companies results in lower prices while increasing performance.

Access to International Markets. We offer our network, content and enterprise customers a one-stop solution for their outsourced IT infrastructure needs in the U.S. and Asia-Pacific. This is especially important for U.S. enterprises who want to expand into Asia-Pacific, where the myriad of complexities for doing business in each country remains challenging. We offer a consistent standard of quality, a single contract and a single point of support for all our locations throughout the U.S. and Asia-Pacific.

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Our Strategy

Our objective is to become the premier hub for critical Internet players, enterprises and government agencies to locate their Internet operations in order to gain maximum benefits from the choice of networks and partners in the most simple and efficient manner. Key components of our strategy include the following:

Continue to Build upon our Critical Mass of Network Providers and Content Companies, and Grow our Position within Enterprise and Government. We have assembled a critical mass of premier network providers and content companies and have become one of the core hubs of the Internet. This critical mass is a key selling point since content companies want to connect with a diverse set of networks to provide the best connectivity to their end-customers, and network companies want to sell bandwidth to content customers and interconnect with other networks in the most efficient manner available. Currently, we have over 170 unique networks, including all of the top tier networks, allowing our customers to directly interconnect with providers that serve more than 90% of global Internet routes. We have a growing mass of key players in the enterprise sector, such as GE, Gannett, Goldman Sachs and others. Similarly, we have experienced increasing success in the government sector within defense and security. We expect these sectors to contribute to our growth in 2004 and beyond.

Leverage the Network Effect. As networks, content providers and other enterprises locate in our IBX hubs, 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. The ability to directly interconnect with a wide variety of companies is a key differentiator for Equinix in the market.

Promote our IBX Hubs as the Highest Performance Points on the Internet. Our premier IBX hubs offer state of the art design and security, 24 hour / 365 days a year customer service, and high quality power and back-up redundancy with 99.9999% uptime. Underscoring our customer satisfaction, our embedded customer base has consistently provided 50% of our growth in a given quarter.

Provide New Products and Services within our IBX Hubs. We will continue to offer additional products and services that are most valuable to our customers as they manage their Internet and network businesses and, specifically, as they attempt to effectively utilize multiple networks. For example, we offer an automated service to allow customers to easily choose and provision multiple networks with a simple easy to use portal.

Customers

Our customers include carriers and other bandwidth providers, internet service providers, enterprises, content providers and system integrators. We offer each customer a choice of business partners and solutions based on their colocation, interconnection and managed IT service needs. As of December 31, 2003, we had 712 customers.

Typical customers in each category include the following:

<u>Carriers/Networks</u>	<u>Content Providers</u>	<u>Enterprise</u>
AT&T	Amazon.com	Apple
British Telecom		Deutsche
	Electronic Arts	Boerse
Cable & Wireless		Electronic
		Data
	Google	Systems
Level 3	Hallmark	Fidelity Investments
MCI	MSN	Fujitsu
NTT	Sony	Gannett
Qwest		Goldman
	Ticketmaster	Sachs
SBC	Washington Post	IBM
Sprint	Yahoo!	Macromedia

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Customers typically sign renewable contracts of one or more years in length. Our single largest customer, IBM, represented approximately 15%, 20% and 15% of total revenues for the years ended December 31, 2003, 2002 and 2001, respectively. No other single customer accounted for more than 10% of revenues during this time.

Products and Services

Our products and services are comprised of three types: Colocation, Interconnection and Managed IT Infrastructure services.

Colocation Services

Our IBX hubs provide our customers with secure, reliable and fault-tolerant environments that are necessary for optimum Internet commerce interconnection. Our IBX hubs include multiple layers of physical security, scalable cabinet space availability, on-site trained staff 24 hours per day, 365 days per year, dedicated areas for customer care and equipment staging, redundant AC/DC power systems and multiple other redundant, fault-tolerant infrastructure systems. Some specifications or services provided may differ in our Asia-Pacific locations in order to properly meet the local needs of customers in those locations.

Within our IBX hubs, customers can place their equipment and interconnect with a choice of networks or other business partners. We also provide customized solutions for customers looking to package our IBX space as part of their complex solutions. Our colocation products and services include:

Cabinets. Our customers have several choices for colocating their networking and server equipment. They can place the equipment in one of our shared or private cages or customize their space. As a customer's colocation requirements increase, they can expand within their original cage or upgrade into a cage that meets their expanded requirements. Cabinets are priced with an initial installation fee and an ongoing recurring monthly charge.

Power. We offer both AC and DC power circuits at various amperages and phases customized to a customer's individual power requirements. Power is becoming an element of increasing importance in customers' colocation decisions.

IBXflex. This service allows customers to deploy mission-critical operations personnel and equipment on-site at our IBX hubs. Because of the close proximity to their end-users, IBXflex customers can offer a faster response and quicker troubleshooting solution than those available in traditional colocation facilities. This space can also be used as a secure disaster recovery point for customers' business and operations personnel. This service is priced with an initial installation fee and an ongoing recurring monthly charge.

Interconnection Services

Our interconnection services enable scalable, reliable and cost-effective interconnection and traffic exchange between all Equinix customers. These interconnection services are either on a one-to-one basis with direct cross connects or one-to-many through one of our peering services. In peering, we provide an important industry leadership role by acting as the relationship broker between parties who would like to interconnect within our IBX hubs. Our staff has held significant positions in the leading industry groups such as the North American Network Operators' Group, or NANOG, and the Internet Engineering Task Force, or IETF, and bring a tremendous amount of knowledge to this area. Our staff have published industry-recognized white papers and strategy documents in the areas of peering and interconnection, many of which are used by leading institutions worldwide in furthering the education and promotion of this important network arena. To showcase these efforts, we hold peering forums which are now widely recognized as a very influential forum for the world's top peering experts. We will continue to develop additional services in the area of traffic exchange that will allow our

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customers to leverage the critical mass of networks now available in our IBX hubs. The current exchange services are comprised of the following:

Physical Cross-Connect/Direct Interconnections. Customers needing to directly and privately connect to another IBX customer can do so through single or multi-mode fiber. These cross connections are the physical link between customers and can be implemented within 24 hours of request. Cross-connect services are priced with an initial installation fee and an ongoing monthly recurring charge.

Equinix Internet Core Exchange. This interconnection service enables direct peering interconnections between major backbone networks and providers. Equinix Internet Core Exchange is a pre-provisioned interconnection package that enables major backbones to connect their networks directly in a centralized, neutral environment for peering and transit. The service includes pre-provisioned interconnections, premium service levels and specialized customer service features to support the quality and support levels required by the largest Internet providers in the world. Internet Core Exchange services are priced with an initial installation fee and an ongoing monthly recurring charge.

Equinix GigE Exchange. Customers may choose to connect to our exchange central switching fabric rather than purchase a direct physical cross connection. With a connection to this switch, a customer can aggregate multiple interconnects over one physical connection instead of purchasing individual physical cross connects. The GigE Exchange service is offered as a bundled service that includes a cabinet, power, cross connects and port charges. The service is priced by IBX with an initial installation fee and an ongoing monthly recurring charge. Individual IBX prices scale upward based on the number of participants on the exchange service.

Internet Connectivity Services. Customers who are installing equipment in our IBX hubs generally require IP connectivity or bandwidth services. Although it is often more beneficial for customers to go directly to the carriers, we will offer customers the ability to contract for these services through us from any of the major bandwidth providers. Customers who require a single bill and a single point of support for all of their services contract through Equinix for their bandwidth needs. We provide these services on a retail basis through each individual carrier and customer and do not aggregate this traffic or run a network. Internet Connectivity Services are priced with an initial installation fee and an ongoing monthly recurring charge based on the amount of bandwidth committed or used.

Managed IT Infrastructure Services

With the continued growth in Internet use, networks, service providers, enterprises and content providers are challenged to deliver fast and reliable service, while lowering costs. With over 170 ISPs and carriers located in our IBX hubs, we leverage the value of network choice with our set of multi-network management and other outsourced IT services.

Professional Services. Our IBX hubs are staffed with Internet and telecommunications specialists who are on-site and available 24 hours per day, 365 days per year. These professionals are trained to perform installations of customer equipment and cabling. Professional services are custom-priced depending on customer requirements.

“Smart Hands” Services. Our customers can take advantage of our professional “Smart Hands” service, which gives customers access to our IBX staff for a variety of tasks, when their own staff is not on site. These tasks may include equipment rebooting, power cycling, card swapping, and performing emergency equipment replacement. Services are available on-demand or by customer contract and are priced on an hourly basis.

Equinix Direct. Equinix Direct is a managed multihoming service that allows customers to easily provision and manage multiple network connections over a single interface. Customers can choose branded networks on a monthly basis with no minimums or long-term commitments. This service is priced with an initial install fee and ongoing monthly recurring charges.

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Equinix Mail Service. Equinix's enterprise messaging service is a complete outsourced solution, primarily based mainly on the Lotus Notes and Microsoft Exchange platform, which customers entrust the operation and support of their messaging applications. This service is currently only available in our Singapore location and the service is priced with an initial installation fee and an ongoing monthly recurring charge.

Managed Platform Solutions. Managed Platform Solutions delivers pre-qualified, pre-installed, pre-hardened and fully managed systems platforms upon which customers can host their co-located applications. These platforms are available in different configuration to meet the needs of the customer. Each configuration includes the server(s), operating system, network connectivity, and system administration management as well as options for database and network administration. This service is only available in the Equinix Singapore location and the service is priced with an initial installation fee and an ongoing monthly recurring charge.

Sales and Marketing

Sales. We use a direct sales force and channel marketing program to market our services to network, content provider, enterprise, government and Internet infrastructure businesses. We organize our sales force by customer segments as well as by establishing a sales presence in diverse geographic regions, which enables efficient servicing of the customer base from a network of regional offices. In addition to our worldwide headquarters located in Silicon Valley, we have established an Asian-Pacific regional headquarters in Singapore. Our U.S. sales offices are located in New York; Reston, Virginia; Los Angeles; Honolulu; Dallas; Chicago and Silicon Valley. Our Asia-Pacific sales offices are located in Hong Kong, Tokyo, Singapore and Sydney.

Our sales team works closely with each customer to foster the natural network effect of our IBX model, resulting in access to a wider potential customer base via our existing customers. As a result of the IBX interconnection model, IBX hub participants encourage their customers, suppliers and business partners to come into the IBX hubs. These customers, suppliers and business partners, in turn, encourage their business partners to locate in IBX hubs resulting in additional customer growth. This network effect significantly reduces our new customer acquisition costs. In addition, large network providers or managed service providers may refer customers to Equinix as a part of their total customer solution.

Marketing. To support our sales effort and to actively promote our brand in the U.S. and Asia-Pacific, we conduct comprehensive marketing programs. Our marketing strategies include an active public relations campaign and on-going customer communications programs. Our marketing efforts are focused on major business and trade publications, online media outlets, industry events and sponsored activities. Our staff holds leadership positions in key networking organizations and we participate in a variety of Internet, computer and financial industry conferences and place our officers and employees in keynote speaking engagements at these conferences. In addition to these activities, we build recognition through sponsoring or leading industry technical forums and participating in Internet industry standard-setting bodies. We continue to develop and host the industry's most successful educational forums focused on peering technologies and peering practices for ISPs and content providers.

Competition

Our current and potential competition includes:

- *Internet data centers operated by established U.S. and Asia-Pacific communications carriers such as AT&T, Level 3, NTT, SAVVIS and SingTel.* Unlike the major network providers, who constructed data centers primarily to help sell bandwidth, we have aggregated multiple networks in one location, providing superior diversity, pricing and performance. Telecommunications companies' data centers only provide one choice of carrier and generally require capacity minimums as part of their pricing structures. Locating in our IBX hubs provides access to top tier networks and allows customers to negotiate the best prices with a number of carriers resulting in better economics and redundancy. There have been two recent announcements that two major carriers who currently operate data centers are

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exiting the U.S. market. The disposition of these assets has been completed with SAVVIS operating the majority of these assets. Because these operators are not network neutral, we believe we have an advantage in gaining the business of those customers displaced from these carriers because access to their networks are also available in our IBX hubs.

- *U.S. Network access points such as Switch and Data/Palo Alto Internet Exchange and carrier operated NAPs* . NAPs, generally operated by carriers, are typically older facilities and lack the incentive to upgrade the infrastructure in order to scale with traffic growth. In contrast, we provide state-of-the-art, secure facilities and geographic diversity with round the clock support and a full range of network and content provider offerings.
- *Vertically integrated web site hosting, colocation and ISP companies such as AboveNet, Digex/MCI and SAVVIS*. Most managed service providers require that customers purchase their entire network and managed services directly from them. We are a network and service provider aggregator and allow customers the ability to contract directly with the networks and web-hosting partner best for their business. By locating in one of our IBX centers, hosting companies add more value to our business proposition by bringing in more partners and customers and thus creating a network effect.

Unlike other providers whose core businesses are bandwidth or managed services, we focus on neutral hubs for networks, content providers, enterprises and government. As a result, we are free of the channel conflict common at other hosting/colocation companies. We compete based on the quality of our facilities, our ability to provide a one-stop solution in our U.S. and Asia-Pacific locations, the superior performance and diversity of our network neutral strategy and the economic benefits of the aggregation of top networks and Internet businesses under one roof. Specifically, we have established relationships with a number of leading hosting companies such as IBM (our largest customer) and EDS. We expect to continue to benefit from several industry trends including the consolidation of supply in the colocation market, the need for contracting with multiple networks due to the uncertainty in the telecommunications market and the continued growth of the large and stable systems integrators.

Employees

As of December 31, 2003, we had 431 employees. We had 289 employees based in the U.S. and 142 employees based in Asia-Pacific. Of our U.S. employees, we had 178 based at our corporate headquarters in Foster City, California and our regional sales offices. Of those employees, 73 were in engineering and operations, 61 were in sales and marketing and 44 were in management and finance. We had 111 employees based at our IBX hubs in Washington, D.C.; New York, New York; Dallas, Texas; Chicago, Illinois; Los Angeles, California; Honolulu, Hawaii and the Silicon Valley area. Of our Asia-Pacific employees, we had 86 at our Asia-Pacific headquarters in Singapore and our other regional offices. Of those employees, 19 were in engineering and operations, 27 were in sales and marketing and 40 were in management and finance. We had 56 employees based at our IBX hubs in Singapore, Tokyo, Hong Kong and Sydney.

Available Information

We were incorporated in Delaware in June 1998. We are required to file reports under the Exchange Act with the SEC. You may read and copy our materials on file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. You may obtain information regarding the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website at <http://www.sec.gov> that contains reports, proxy and information statements and other information.

You may also obtain copies of our annual report on Form 10-K, our quarterly reports on Form 10-Q and our current reports on Form 8-K by visiting the investor relations page on our website, www.equinox.com. Information contained on our website is not part of this annual report on Form 10-K.

ITEM 2. PROPERTIES

Our executive offices are located in Foster City, California, and we also have sales offices in several cities throughout the United States. Our Asia-Pacific headquarter office is located in Singapore and we also have some office space in Tokyo, Japan and Hong Kong, China. We have entered into leases for IBX hubs in Ashburn, Virginia; Newark and Secaucus, New Jersey; San Jose, Santa Clara and Los Angeles, California; Chicago, Illinois; Dallas, Texas; Honolulu, Hawaii; Tokyo, Japan; Hong Kong, China; Sydney, Australia and Singapore. We also hold a ground leasehold interest in certain unimproved real property in San Jose, California, consisting of approximately 40 acres.

ITEM 3. LEGAL PROCEEDINGS

On July 30, 2001 and August 8, 2001, putative shareholder class action lawsuits were filed against us, certain of our officers and directors, and several investment banks that were underwriters of our initial public offering. The cases were filed in the United States District Court for the Southern District of New York, purportedly on behalf of investors who purchased our stock between August 10, 2000 and December 6, 2000. The suits allege that the underwriter defendants agreed to allocate stock in our 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 our initial public offering was false and misleading and in violation of the securities laws because it did not disclose these arrangements. It is possible that additional similar complaints may also be filed. In July 2003, a Special Litigation Committee of the Equinix Board of Directors agreed to participate in a settlement with the plaintiffs that are anticipated to include most of the approximately 300 defendants in similar actions. This settlement agreement is subject to court approval and sufficient participation by all defendants in similar actions. Such settlement includes without limitation a guarantee of payments to the plaintiffs in the lawsuits, assignment of certain claims against the underwriters in our IPO to the plaintiffs, and a dismissal of all claims against Equinix and related individuals. Other than legal fees incurred to date, Equinix expects that all expenses of settlement, if any, will be paid by our insurance carriers. Until such settlement is finalized, we and our officers and directors intend to continue to defend the actions vigorously.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the Nasdaq National Market System under the symbol of EQIX. Our common stock began trading in August 2000. The following table sets forth on a per share basis the low and high closing prices of our common stock as reported by the Nasdaq National Market during the last two years. On December 31, 2002, we completed a 32 for 1 reverse stock split of our common stock in order to comply with Nasdaq initial listing requirements. The per share information presented below reflects this reverse stock split.

	<u>Low</u>	<u>High</u>
Fiscal 2003:		
Fourth Fiscal Quarter	\$ 17.04	\$ 28.25
Third Fiscal Quarter	8.03	23.37
Second Fiscal Quarter	2.90	10.40
First Fiscal Quarter	2.95	7.70
Fiscal 2002:		
Fourth Fiscal Quarter	\$ 5.70	\$ 11.52
Third Fiscal Quarter	6.72	18.56
Second Fiscal Quarter	10.24	36.80
First Fiscal Quarter	33.92	108.16

As of December 31, 2003, we had issued 15,084,425 shares of our common stock held by approximately 456 registered holders.

We have never declared or paid any cash dividends on our common stock and we do not anticipate paying cash dividends in the foreseeable future. In addition, we are prohibited from paying cash dividends under covenants contained in our current credit agreements. We currently intend to retain our earnings, if any, for future growth. Future dividends on our common stock, if any, will be at the discretion of our board of directors and will depend on, among other things, our operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our board of directors may deem relevant.

The effective date of the Registration Statement for our initial public offering, filed on Form S-1 under the Securities Act of 1933 (File No. 333-93749), was August 10, 2000. The class of securities registered was common stock. There has been no change to the disclosure contained in the Company's report on Form 10-Q for the quarter ended September 30, 2000 regarding the use of proceeds generated by the Company's initial public offering of its common stock.

During the quarter ended December 31, 2003, we issued and sold the following securities:

1. On November 21, 2003, we sold 5,524,780 shares of our common stock at a purchase price of \$20.00 per share in a public offering, which resulted in gross proceeds to us of \$110,495,600 before deducting offering expenses and underwriting fees of \$6,052,900. Citigroup Global Markets, Inc. and SG Cowen Securities Corporation acted as the Company's principal underwriters.

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Equity Compensation Plan Information

The following table provides information as of December 31, 2003 with respect to the shares of the Company's common stock that may be issuable under the Company's existing equity compensation plans.

The following information is as of December 31, 2003:

Plan category	(a)	(b)	(c)
	Number of securities to be issued upon exercise of outstanding options and rights	Weighted-average exercise price of outstanding options and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders*	3,345,823	\$ 17.67	866,768**
Equity compensation plans not approved by security holders	62,115	\$ 12.17	1,390,977
Totals	3,407,938	\$ 17.56	2,257,745

* On each January 1, beginning in 2001, the number of shares reserved for issuance under the following equity compensation plans will be automatically increased as follows: the 2000 Equity Incentive Plan will be automatically increased by the lesser of 6% of the then outstanding shares of common stock or 6 million shares; the 2000 Director Option Plan will be automatically increased by 50,000 shares of common stock; and the Employee Stock Purchase Plan will be automatically increased by the lesser of 2% of the then outstanding shares of common stock of 600,000 shares.

** Includes 13,301 shares from the Employee Stock Purchase Plan.

The following equity compensation plan of the Company that was in effect as of December 31, 2003 was adopted without the approval of the Company's security holders:

The Equinix 2001 Supplemental Stock Plan was adopted by the board of directors effective September 26, 2001. The Company has reserved 1,493,961 shares of common stock for issuance under the 2001 Supplemental Stock Plan. Nonstatutory options and restricted stock awards may be granted under the 2001 Supplemental Stock Plan to employees of the Company (or any parent or subsidiary corporation) who are neither officers nor Board members at the time of grant or to consultants. All option grants will have an exercise price per share equal to not less than 85% of the fair market value per share of common stock on the grant date. Each option will vest in installments over the optionee's period of service with the Company. The purchase price for newly issued restricted shares awarded under the 2001 Supplemental Stock Plan may be paid in cash, by promissory note or by the rendering of past or future services. As of December 31, 2003, options covering 62,115 shares of common stock were outstanding under the 2001 Supplemental Stock Plan, 1,390,977 shares remained available for future option grants, and options covering 40,869 shares had been exercised. The options will vest on an accelerated basis in the event the Company is acquired and those options are not assumed or replaced by the acquiring entity. An option or award will become fully exercisable or fully vested if the holder's employment or service is involuntarily terminated within 18 months following the acquisition. The Board may amend or terminate the 2001 Supplemental Stock Plan at any time. The 2001 Supplemental Stock Plan will continue in effect indefinitely unless the board decides to terminate the plan earlier.

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ITEM 6. SELECTED FINANCIAL DATA

The following statement of operations data for the five years ended December 31, 2003 and the balance sheet data as of December 31, 2003, 2002, 2001, 2000 and 1999 have been derived from our audited consolidated financial statements and the related notes to the financial statements. Our historical results are not necessarily indicative of the results to be expected for future periods. The following selected consolidated financial data for the three years ended December 31, 2003 and as of December 31, 2003 and 2002, should be read in conjunction with our consolidated financial statements and the related notes to the consolidated financial statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Annual Report on Form 10-K.

	Years ended December 31,				
	2003	2002	2001	2000	1999
(dollars in thousands, except per share data)					
Statement of Operations Data:					
Revenues	\$ 117,942	\$ 77,188	\$ 63,414	\$ 13,016	\$ 37
Costs and operating expenses:					
Cost of revenues	128,121	104,073	94,889	43,401	3,268
Sales and marketing	19,483	15,247	16,935	20,139	3,949
General and administrative	34,293	30,659	58,286	56,585	12,603
Restructuring charges	—	28,885	48,565	—	—
Total costs and operating expenses	181,897	178,864	218,675	120,125	19,820
Loss from operations	(63,955)	(101,676)	(155,261)	(107,109)	(19,783)
Interest income	296	998	10,656	16,430	2,138
Interest expense	(20,512)	(35,098)	(43,810)	(29,111)	(3,146)
Gain on debt extinguishment	—	114,158	—	—	—
Net loss	\$ (84,171)	\$ (21,618)	\$ (188,415)	\$ (119,790)	\$ (20,791)
Net loss per share:					
Basic and diluted	\$ (8.76)	\$ (7.23)	\$ (76.62)	\$ (111.23)	\$ (159.93)
Weighted average shares	9,604	2,990	2,459	1,077	130
As of December 31,					
	2003	2002	2001	2000	1999
(dollars in thousands)					
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	\$ 72,971	\$ 41,216	\$ 87,721	\$ 207,210	\$ 222,974
Accounts receivable, net	10,178	9,152	6,909	4,925	178
Restricted cash and short-term investments	1,835	4,407	28,044	36,855	38,609
Property and equipment, net	343,554	390,048	325,226	315,380	28,444
Construction in progress	—	—	103,691	94,894	18,312
Total assets	464,532	492,003	575,054	683,485	319,946
Debt facilities and capital lease obligations, excluding current portion	723	3,633	6,344	6,506	8,808
Credit facility, excluding current portion	22,281	89,529	105,000	—	—
Senior notes	29,220	28,908	187,882	185,908	183,955
Convertible secured notes	31,683	25,354	—	—	—
Redeemable convertible preferred stock	—	—	—	—	97,227
Total stockholders’ equity	320,077	284,194	203,521	375,116	8,472
Other Financial Data:					
Net cash used in operating activities	(17,266)	(27,509)	(68,854)	(68,073)	(9,908)
Net cash used in investing activities	(15,620)	(7,528)	(153,014)	(302,158)	(86,270)
Net cash provided by financing activities	52,288	16,294	107,799	339,847	295,178

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following commentary should be read in conjunction with the financial statements and related notes contained elsewhere in the Annual Report on Form 10-K. The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, the words "believes," "anticipates," "plans," "expects," "intends" and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a discrepancy include, but are not limited to, those discussed in "Liquidity and Capital Resources" and "Risk Factors" below. All forward-looking statements in this document are based on information available to us as of the date hereof 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 and systems integrators and the world's largest networks. Through our 14 IBX hubs in the U.S. and Asia, customers can directly interconnect with each other for critical traffic exchange requirements. As of December 31, 2003, we had IBX hubs totaling an aggregate of more than 1.2 million gross square feet in the Washington, D.C., New York, Dallas, Chicago, Los Angeles, Honolulu and Silicon Valley areas in the United States and Hong Kong, Singapore, Sydney and Tokyo in the Asia-Pacific region.

In our IBX hubs, customers can directly interconnect with each other for critical traffic exchange requirements. 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 hubs, we believe we have established a critical mass of customers, comprised of networks, content providers and other enterprise companies. As more customers locate in our IBX hubs, 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.

This critical mass of customers and the resulting network effect, combined with our improved financial position gained through the completion of a series of financing transactions at the end of 2002, our follow-on equity offering in November 2003 and our convertible debenture offering in February 2004 (refer to "Recent Developments" below), has resulted in an acceleration of new customer growth and related revenue bookings. Both our existing and new customers continue to gain confidence in our financial stability, which helps make their decision easier to move their core infrastructure into our IBX hubs. While we had generated negative operating cashflow in each annual period since inception, commencing the quarter ended September 30, 2003 we started to generate positive operating cash flow. During this quarter, our recurring revenues grew to a level sufficient to meet our operating cash requirements related to our predominantly fixed cost structure. We considered this quarter to be the inflection point in our business model whereby our revenues were sufficient on an ongoing basis to meet all our operating costs and working capital requirements. Given a large component of our cost of revenues are fixed in nature, we anticipate any growth in revenues will have a significant incremental flow through to gross profit in the 70 – 90% range. As a result of reaching this point in our operating history, we expect to generate cash from our operations during 2004 and expect these operating cash flows to also be sufficient to meet our cash requirements to fund our capital expenditures.

Historically, our market has been served by large telecommunications carriers who have bundled their telecommunication products and services with their colocation offerings. During 2003, a number of these

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telecommunication carriers reduced their colocation footprint as they exited under-performing markets. In addition, one major telecommunications company, Sprint, announced their plans to exit the colocation and hosting market altogether to focus on their core service offerings, while another telecommunications company, Cable & Wireless Plc, sold their U.S. assets to another telecommunications company, Savvis Communications Corp, in a bankruptcy auction. Each of these colocation providers owns and operates a network. We do not operate a network, yet have greater than 170 networks operating out of our IBX hubs. As a result, we are able to offer our customers a substantial choice of networks given our network neutrality allowing our customers to choose from numerous network service providers thereby eliminating a single point of failure. We believe this is a distinct advantage we have over our telecommunications company competitors, especially when the telecommunications industry is experiencing so many business challenges and changes as evidenced by the numerous bankruptcies and consolidations within this industry during the past several years. Furthermore, for those customers who do require a fully managed solution that these telecommunications companies typically provide, certain of our other customers, such as IBM and EDS, can provide such a solution within our network rich IBX hubs.

Strategically, we will continue to look at attractive opportunities to grow our market share and selectively improve our footprint and service streams, such as our recent acquisition of the Sprint property in Santa Clara (refer to “Recent Developments” below). However, we will continue to be very selective with any similar opportunity. As was the case with the Sprint property, the criteria will be quality of the design, access to networks, capacity availability in current market location, amount of incremental investment in the targeted property, lead-time to breakeven and in-place customers. Like the Sprint property, the right combination of these factors may be quite attractive for us. Dependent on the particular deal, these acquisitions may require additional capital expenditures in order to bring these centers up to Equinix standards.

Recent Developments

On November 21, 2003, we sold 5.5 million shares of our common stock at a purchase price of \$20.00 per share, which resulted in net proceeds to the Company of \$104.4 million. We refer to this transaction as the “follow-on equity offering.” In addition, in conjunction with our follow-on equity offering, we received consent from our senior lenders to amend the terms of our credit facility and permanently repaid \$55.2 million of the then outstanding principal balance of \$90.5 million.

On December 1, 2003, we closed a definitive agreement to sublease Sprint’s E|Solutions Internet Center in Santa Clara, California, and acquire certain related assets. The 160,000 square foot data center became our 14th IBX hub, expanding our global footprint to over 1.2 million square feet in eleven markets. Sprint’s Santa Clara center provides a physical infrastructure that is consistent with our industry leading standards, and currently hosts some of the top Internet companies. Consistent with our model of network-neutrality, we will offer a choice of networks in the new center.

On February 11, 2004, we sold \$75.0 million in aggregate principal of 2.5% convertible subordinated debentures due 2024 to qualified institutional buyers. Subsequently, on February 18, 2004, we sold an additional \$11.25 million of our debentures to the initial purchasers of these debentures. We used or intend to use the net proceeds from this offering to repay all amounts outstanding under our credit facility and two of our other debt facilities. In addition, we intend to use the proceeds received to redeem our 13% senior notes. We have exercised our right to redeem all of its 13% senior notes, which have a total of \$30.5 million of principal outstanding and have sent a notice of redemption to the trustee. The effective date of the redemption is expected to be March 12, 2004. The redemption price for the senior notes will be equal to 106.5% of their principal amount plus accrued and unpaid interest to the redemption date. Lastly, all remaining proceeds will be used for general corporate purposes. We expect to record a significant loss on debt extinguishment during the quarter ended March 31, 2004, primarily related to the non-cash write-off of debt issuance costs and discounts in connection with these various debt repayments and redemptions, as well as the cash premium that we will pay on our 13% senior notes. We refer to this transaction as the “convertible debenture offering”.

The Combination, Financing, Senior Note Exchange and Crosslink Financing

In October 2002, we entered into agreements to consummate a series of related acquisition and financing transactions. These transactions closed on December 31, 2002. Under the terms of these agreements, we combined our business with two similar businesses, that of i-STT Pte Ltd, or i-STT, and Pihana Pacific, Inc., or Pihana. i-STT's business was based in Singapore, with operations in Singapore and a joint venture in Thailand. Pihana's business was based in Hawaii, with operations in Honolulu, Los Angeles, Hong Kong, Singapore, Tokyo and Sydney. In connection with the acquisition of i-STT and Pihana, we issued approximately 3.5 million shares of our common stock and approximately 1.9 million shares of our Series A preferred stock. We refer to this transaction as the "combination." In conjunction with the combination, we issued to i-STT's former parent company, STT Communications Ltd., or STT Communications, a \$30.0 million convertible secured note in exchange for cash. We refer to this transaction as the "financing."

In connection with the combination and financing, we amended the terms of the indenture governing our senior notes and extinguished \$116.8 million of our senior notes in exchange for a combination of 1.9 million shares of our common stock and \$15.2 million of cash. We refer to this transaction as the "senior note exchange." Because we extinguished the debt in the senior note exchange at a significant discount, we recognized a substantial gain on debt extinguishment during the fourth quarter of 2002.

Furthermore, in conjunction with the combination, financing and senior note exchange, we amended our credit facility, and on December 31, 2002, we completed a 32 for 1 reverse stock split of our common stock in order to comply with Nasdaq initial listing requirements. Unless otherwise noted, all share and per share amounts in this prospectus supplement have been adjusted to give effect to the reverse stock split.

In April 2003, Equinix and certain of our subsidiaries and STT Communications entered into agreements with various entities affiliated with Crosslink Capital for a \$10.0 million cash investment in Equinix in the form of additional convertible secured notes. This transaction closed in June 2003. We refer to this transaction as the "Crosslink financing."

Critical Accounting Policies and Estimates

The preparation of our financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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. On an on-going basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its consolidated financial statements:

- Revenue recognition and allowance for doubtful accounts;
- Accounting for income taxes;
- Estimated and contingent liabilities;
- Accounting for property and equipment; and
- Impairment of long-lived assets.

Revenue Recognition and Allowance for Doubtful Accounts. We derive more than 90% of our revenues from recurring revenue streams, consisting primarily of (i) colocation services, such as the licensing of cabinet

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space, power and bandwidth; (ii) interconnection services, such as cross connects and Gigabit Ethernet Ports; and (iii) managed infrastructure services, such as Equinix Direct and various other e-business services such as mail service and managed platform solutions. The remainder of our revenues are from non-recurring revenue streams, such as from the recognized portion of deferred installation, professional services, contract settlements and equipment sales. Revenues from recurring revenue streams are billed monthly and recognized ratably over the term of the contract, generally one to three years. Fees for the provision of e-business services are recognized progressively as the services are rendered in accordance with the contract terms, except where the future costs cannot be reliably estimated, in which case fees are recognized upon the completion of services. Non-recurring installation fees are deferred and recognized ratably over the term of the related contract. Professional service fees are recognized in the period in which the services were provided and represent the culmination of the earnings process. Revenue from bandwidth and equipment is recognized on a gross basis in accordance with Emerging Issues Task Force, or EITF, Abstract No. 99-19, "Recording Revenue as a Principal versus Net as an Agent", primarily because we act as the principal in the transaction, take title to products and services and bear inventory and credit risk. Revenue from contract settlements is recognized on a cash basis when no remaining performance obligations exist.

In some cases, we guarantee certain service levels, such as uptime, as outlined in individual customer contracts. To the extent that these service levels are not achieved, we reduce revenue for any credits given to the customer as a result. We generally have the ability to determine such service level credits prior to the associated revenue being recognized, and historically, these credits have not been significant.

Revenue is recognized only when the service is 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. We assess the probability of collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We generally do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash. In addition, we also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments for those customers that we had expected to collect the revenues. If the financial condition of our customers were to deteriorate or if they become insolvent, resulting in an impairment of their ability to make payments, 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 our reserves.

Our customer base has historically been composed of businesses throughout the U.S. Commencing in fiscal year 2003, our revenues include revenues from our newly-acquired Asia-Pacific operations. For the year ended December 31, 2003 our revenues were split approximately 85% in the U.S. and 15% in Asia-Pacific. We perform ongoing credit evaluations of our customers. As of December 31, 2003, one customer, IBM, accounted for 15% of annual revenues and 11% of accounts receivable. As of December 31, 2002, this same customer accounted for 20% of annual revenues and 15% of accounts receivable. No other single customer accounted for greater than 10% of accounts receivable or annual revenues for the periods presented.

Accounting for Income Taxes. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years 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.

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We currently have provided for a full valuation allowance against our net deferred tax assets and our net operating losses. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. Based on the available objective evidence, management does not believe that the net deferred tax assets will be fully realizable. Should we determine that we would be able to realize our deferred tax assets in the foreseeable future, a reversed adjustment to the valuation allowance would increase income in the period such determination is made.

Estimated and Contingent Liabilities. Management estimates exposure on certain liabilities and contingent liabilities, such as property taxes and litigation, based on the best information available at the time of determination. With respect to real and personal property taxes, management records what it can reasonably estimate based on prior payment history, current landlord estimates or estimates based on current or changing fixed asset values in each specific municipality, as applicable. However, there are circumstances beyond our control whereby the underlying value of the property or basis for which the tax is calculated on said property may change, such as a landlord selling the underlying property of one of our IBX hub leases or a municipality changing the assessment value in a jurisdiction and, as a result, our property tax obligations may vary from period to period. Based upon the most current facts and circumstances, we make the necessary property tax accruals for each of our reporting periods. However, revisions in our estimates of the potential or actual liability could materially impact our results of operation and financial position.

For litigation claims, when management can reasonably estimate the range of loss and when an unfavorable outcome is probable, a contingent liability is recorded. For current legal proceedings, management believes that it has adequate legal defenses and that the ultimate outcome of these actions will not have a material effect on the Company's financial position, results of operations and cashflows. Furthermore, because of the uncertainties as to the outcome of these proceedings and since no range of loss can be estimated at this time, management has determined that no accrual is needed. As additional information becomes available, we will assess the potential liability related to our pending litigation and revise our estimates. Revisions in our estimates of the potential liability could materially impact our results of operation and financial position.

Accounting for Property and Equipment. Property and equipment are stated at original cost, or in the case of IBX hubs that we acquire, at fair value at the time of acquisition. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, generally two to five years for non-IBX hub equipment and seven to ten years for IBX hub equipment. Leasehold improvements and assets acquired under capital lease are amortized over the shorter of the lease term or the estimated useful life of the asset or improvement.

Should management determine that the actual useful lives of our property and equipment placed into service is less than originally anticipated, or if any of our property and equipment was deemed to have incurred an impairment, additional depreciation, or an impairment charge would be required, which would decrease net income in the period such determination was made. Conversely, should management determine that the actual useful lives of its property and equipment placed into service was greater than originally anticipated, less depreciation may be required, which would increase net income in the period such determination was made.

Impairment of Long-Lived Assets. We account for the impairment of long-lived assets in accordance with Statement of Financial Accounting Standard, or SFAS, No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", or in the case of goodwill, in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets". We evaluate the carrying value of our long-lived assets, consisting primarily of our IBX hubs and goodwill, whenever certain events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable or at least on an annual basis during the fourth quarter for goodwill. Such events or circumstances include, but are not limited to, a prolonged industry downturn, a significant decline in our market value or significant reductions in projected future cash flows.

Significant judgments and assumptions are required in the forecast of future operating results used in the preparation of the estimated future cash flows, including profit margins, long-term forecasts of the amounts and

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timing of overall market growth and our percentage of that market, groupings of assets, discount rates and terminal growth rates. In addition, significant estimates and assumptions are required in the determination of the fair value of our tangible long-lived assets, including replacement cost, economic obsolescence, and the value that could be realized in orderly liquidation. Changes in these estimates could have a material adverse effect on the assessment of our long-lived assets, thereby requiring us to write down the assets. Our net long-lived assets as of December 31, 2003 and December 31, 2002, included property and equipment of \$343.6 million and \$390.0 million, respectively, and goodwill and other identifiable intangible assets of \$23.5 million and \$25.0 million, respectively.

Results of Operations

Years Ended December 31, 2003 and 2002

Revenues. Our revenues for the year ended December 31, 2003 and 2002 were split between the following revenue classifications (dollars in thousands):

	Year ended December 31,			
	2003	%	2002	%
Recurring revenues	\$ 109,957	93%	\$ 65,319	85%
Non-recurring revenues:				
Installation and professional services	6,221	5%	4,056	5%
Other	1,764	2%	7,813	10%
	7,985	7%	11,869	15%
Total revenues	\$ 117,942	100%	\$ 77,188	100%

Our revenues for the year ended December 31, 2003 and 2002 were geographically comprised of the following (dollars in thousands):

	Year ended December 31,			
	2003	%	2002	%
U.S. revenues	\$ 99,669	85%	\$ 77,188	100%
Asia-Pacific revenues	18,273	15%	—	0%
Total revenues	\$ 117,942	100%	\$ 77,188	100%

We recognized revenues of \$117.9 million for the year ended December 31, 2003, as compared to revenues of \$77.2 million for the year ended December 31, 2002, a 53% increase. Included in revenues for the year ended December 31, 2003, are the results of the two companies that we acquired on December 31, 2002, i-STT and Pihana, totaling \$23.4 million. We segment our business geographically between the U.S. and Asia-Pacific as further discussed below.

Our business is based on a recurring revenue model comprised of colocation, interconnection and managed infrastructure services. We consider these services as recurring as once a customer has been installed in one of our IBX hubs they are billed on a fixed and recurring basis each month for the duration of their contract, which is generally one to three years in length. Our recurring revenues are a significant component of our total revenues comprising 93% of our total revenues for the year ended December 31, 2003, an increase from the 85% level in the prior year. To review our revenue recognition policies for our recurring revenue streams, refer to "Critical Accounting Policies and Estimates" above.

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.

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The non-recurring revenues are typically billed on the first invoice distributed to the customer. Installation and professional services revenues increased 53% year over year, primarily due to strong existing and new customer growth during the year. As a percent of total revenues, we expect non-recurring revenues to represent approximately 5% of total revenues in each year. Other non-recurring revenues include equipment resales and customer settlements. This non-recurring revenue line decreased significantly from the prior year as (i) we are no longer pursuing equipment resales due to their poor margin characteristics and (ii) the number of customer right-sizings and settlements decreased substantially during 2003. To review our revenue recognition policies for our non-recurring revenue streams, refer to “Critical Accounting Policies and Estimates” above.

In addition to reviewing recurring versus non-recurring revenues, we look at two other primary metrics when we analyze our revenues: 1) customer count and 2) percentage utilization. Our customer count increased to 712 as of December 31, 2003 versus 568 as of December 31, 2002, an increase of 25%. Our utilization rate represents the percentage of our cabinet space billing versus total cabinet space available. Our utilization rate as of December 31, 2003 was 37% versus 29% as of December 31, 2002, an increase of 28%, including our Asia-Pacific operations for both periods. Although we have substantial capacity for growth, our utilization rates vary from market to market among our 14 worldwide IBX hubs. 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. Therefore, consistent with our acquisition of the Sprint’s Santa Clara property in December 2003, we will continue to review our available space in our other operating markets.

U.S. Revenues. We recognized U.S. revenues of \$99.7 million for the year ended December 31, 2003 as compared to \$77.2 million for the year ended December 31, 2002. U.S. revenues consisted of recurring revenues of \$93.6 million and \$65.3 million, respectively, for the year ended December 31, 2003 and 2002, a 43% increase. U.S. recurring revenues consist primarily of colocation and interconnection services plus a nominal amount of managed infrastructure services. U.S. recurring revenues for the year ended December 31, 2003 includes \$5.1 million of revenues generated from the two U.S. IBX hubs acquired from Pihana on December 31, 2002 located in Los Angeles and Honolulu. Excluding revenues from these acquired U.S. IBX hubs, the period over period growth in recurring revenues of 60% was primarily the result of an increase in orders from both our existing customers and new customer growth acquired during the year as reflected in the growth in our customer count and utilization rate as discussed above. In addition, consistent with the growth in our customer base, our interconnection revenues have grown as our customers continue to expand their interconnection activity with each other. As of December 31, 2003, U.S. interconnection revenue represented 21% of total U.S. recurring revenue as compared to 9% in the prior year. We expect our U.S. recurring revenues to continue to grow and remain our most significant source of revenue for the foreseeable future.

In addition, U.S. revenues consisted of non-recurring revenues of \$6.1 million and \$11.9 million, respectively, for the year ended December 31, 2003 and 2002. Non-recurring revenues are primarily related to the recognized portion of deferred installation, professional services, settlement fees associated with certain contract terminations and equipment resales. The period over period decrease in U.S. non-recurring revenues was primarily the result of \$2.9 million of equipment resale revenue and \$4.9 million in settlement fees from customers to terminate their contract recognized during the year ended December 31, 2002. There were no equipment resale transactions during the year ended December 31, 2003; however, we received \$1.2 million of settlement fees during the year ended December 31, 2003, primarily as a result of bankruptcy related payments from both Worldcom and Excite@home. Excluding any settlement fees that we may recognize in the future, we expect our U.S. non-recurring revenues to remain relatively flat or grow moderately in the foreseeable future.

Asia-Pacific Revenues. As a result of the combination that closed on December 31, 2002, which resulted in the acquisition of four Asia-Pacific IBX hubs, we recognized \$18.2 million of revenues in Asia-Pacific during the year ended December 31, 2003. Prior to the combination we generated no revenues from outside of the United States. Asia-Pacific revenues consisted of recurring revenues of \$16.3 million, primarily from colocation and managed infrastructure services, and non-recurring revenues of \$1.9 million for the year ended December 31, 2003, which includes settlement fees of \$584,000, primarily from one customer that terminated its contract. Asia-Pacific revenues are generated from Singapore, Tokyo, Hong Kong and Sydney with Singapore representing

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approximately 77% of the regional revenues. Our Asia-Pacific revenues are similar to the revenues that we generate from our U.S. IBX hubs; however, our Singapore IBX hub has additional managed infrastructure service revenue, such as mail service and managed platform solutions, which we do not currently offer in any other IBX hub location. We expect our Asia-Pacific revenues to decrease slightly during the first half of 2004 as we expect some churn on our low-margin bandwidth revenue in Singapore. However, excluding this expected drop in bandwidth revenue, we would otherwise expect our Asia-Pacific revenues to begin to grow over the course of the year.

Cost of Revenues. Cost of revenues were \$128.1 million for the year ended December 31, 2003 versus \$104.1 million for the year ended December 31, 2002, a 23% increase. Included in cost of revenues for the year ended December 31, 2003 are the results of the two companies that we acquired on December 31, 2002, i-STT and Pihana, a cumulative total of \$24.7 million. The largest cost components of our cost of revenues are depreciation, rental payments related to our leased IBX hubs, utility costs including bandwidth, IBX employees' salaries and benefits, consumable supplies and equipment and security services. A substantial majority of our cost of revenues are fixed in nature and do not vary significantly from period to period. However, there are certain costs, which are considered variable in nature including utilities and consumable supplies that are directly related to growth of services in our existing and new customer base. Given a large component of our cost of revenues are fixed in nature, we anticipate any growth in revenues will have a significant incremental flow through to gross profit in the 70 – 90% range.

U.S. Cost of Revenues. U.S. cost of revenues were \$107.5 million for the year ended December 31, 2003 as compared to \$104.1 million for the year ended December 31, 2002, a 3.2% increase. U.S. cost of revenues included \$49.9 million and \$47.8 million, respectively, of depreciation expense and \$59,000 and \$266,000, respectively, of stock-based compensation expense for the year ended December 31, 2003 and 2002. During the year ended December 31, 2003, we also recorded \$562,000 of accretion expense associated with our asset retirement obligation relating to our various leaseholds, which consist primarily of our IBX hub operating leases, as required under FASB No. 143 that was adopted in 2003. Furthermore, U.S. cost of revenues included the costs associated with the \$2.9 million of equipment resale revenue that we recorded for the year ended December 31, 2002, which was approximately \$2.8 million. We recorded no equipment resale revenue for the year ended December 31, 2003. Included in the U.S. cost of revenues for the year ended December 31, 2003, were the operating costs associated with (i) the Los Angeles and Honolulu IBX hubs acquired from Pihana in the combination on December 31, 2002, which totaled \$4.1 million (\$3.5 million excluding depreciation) and (ii) the Santa Clara IBX hub acquired on December 1, 2003, which totaled \$597,000. Excluding depreciation, stock-based compensation, accretion expense, the costs of equipment resales and the costs of operating the acquired U.S. IBX hubs, U.S. cash cost of revenues decreased period over period to \$52.8 million for the year ended December 31, 2003 from \$53.1 million for the year ended December 31, 2002, a 1% decrease. This decrease is primarily the result of reduced costs associated with the San Jose ground lease of \$3.6 million as a result of the option that we exercised in September 2002 to return approximately one-half of the land commencing in October 2002 (refer to 'Restructuring Charges' below); however, this decrease is partially offset by an increase in operating costs associated with certain of our IBX hubs as a result of (a) higher property taxes for certain IBX hubs and (b) increasing utility costs in line with increasing customer installations and revenues attributed to this customer growth. We continue to anticipate that our cost of revenues will increase in the foreseeable future as the occupancy levels in our U.S. IBX hubs increase, however as a percent of revenues, we anticipate our cost of revenues will continue to decline.

Asia-Pacific Cost of Revenues. As a result of the combination that closed on December 31, 2002, which resulted in the acquisition of four Asia-Pacific IBX hubs, we incurred an additional \$20.6 million in cost of revenues from our Asia-Pacific IBX hub operations during the year ended December 31, 2003. Included in this number is \$4.4 million of depreciation expense. Excluding depreciation expense, our acquired cost of revenues totaled \$16.2 million for Asia-Pacific. Our Asia-Pacific cost of revenues consist of the same type of costs that we incur in our U.S. IBX hub operations, namely rental payments for our leased IBX hubs, utility costs, site employees' salaries and benefits, consumable supplies and equipment and security services. Our Asia-Pacific

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costs of revenues are generated in Singapore, Tokyo, Hong Kong and Sydney. There are several managed IT infrastructure service revenue streams unique to our Singapore IBX hub, such as mail service and managed platform solutions, that are more labor intensive than our service offerings in the United States. As a result, our Singapore IBX hub has a greater number of employees than any of our other IBX hubs, and therefore, a greater labor cost relative to our other IBX hubs in the United States or other Asia-Pacific locations. We anticipate that our Asia-Pacific cost of revenues will experience a small decrease during the first half of 2004 as a result of the expected drop in low-margin bandwidth revenue as discussed above. However, excluding this, we would otherwise expect to see moderate growth in Asia-Pacific cost of revenues in the foreseeable future consistent with our anticipated growth in revenues over the course of the year.

Sales and Marketing. Sales and marketing expenses increased to \$19.5 million for the year ended December 31, 2003 from \$15.2 million for the year ended December 31, 2002. Included in sales and marketing expenses for the year ended December 31, 2003, are the results of the two companies that we acquired on December 31, 2002, i-STT and Pihana, totaling \$6.9 million.

U.S. Sales and Marketing Expenses. U.S. sales and marketing expenses decreased to \$12.5 million for the year ended December 31, 2003 as compared to \$15.2 million for the year ended December 31, 2002. Included in U.S. sales and marketing expenses were \$294,000 and \$952,000, respectively, of stock-based compensation expense for the year ended December 31, 2003 and 2002. During the year ended December 31, 2002, we recorded \$2.3 million in bad debt expense. The amount of bad debt expense that we recorded in the prior period, which was significantly larger than what we typically incur, was primarily the result of write-offs or full reserves of aged receivables associated with several customers, including Teleglobe, which had filed for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code last year. Excluding stock-based compensation and bad debt expense, U.S. sales and marketing expenses increased to \$12.4 million from \$12.0 million, respectively, for the year ended December 31, 2003 and 2002, a 3% increase. Sales and marketing expenses consist primarily of compensation and related costs for sales and marketing personnel, sales commissions, marketing programs, public relations, promotional materials and travel. Excluding stock-based compensation and bad debt expense, the nominal increase in sales and marketing expenses year over year is primarily related to the incremental sales and marketing efforts associated with the two U.S. IBX hubs acquired in the combination as of December 31, 2002 in Los Angeles and Honolulu, as well as an overall increase in sales compensation due to increased revenues. We expect to see a nominal increase in sales and marketing spending in the future, although as a percent of revenues, we anticipate a decline in sales and marketing spending.

Asia-Pacific Sales and Marketing Expenses. As a result of the combination that closed on December 31, 2002, we incurred an additional \$6.9 million of sales and marketing expenses, comprised of \$4.8 million in cash sales and marketing expenses from our Asia-Pacific operations during the year ended December 31, 2003, and \$2.1 million of amortization expense. Our Asia-Pacific sales and marketing expenses consist of the same type of costs that we incur in our U.S. operations, namely compensation and related costs for sales and marketing personnel, sales commissions, marketing programs, public relations, promotional materials and travel. Our Asia-Pacific sales and marketing expenses are generated in Singapore, Tokyo, Hong Kong and Sydney. We expect that our Asia-Pacific sales and marketing expenses will remain relatively flat in the foreseeable future. As a result of the combination that closed on December 31, 2002, we acquired several intangible assets that we amortize, namely the use of a trade-name and certain customer contracts in Singapore valued at approximately \$300,000 and \$3.6 million, respectively. The trade-name intangible asset was being amortized over one year ending December 31, 2003 and the customer contract intangible asset is being amortized over two years, ending December 31, 2004. As a result, we incurred a total of \$2.1 million of amortization expense during the year ended December 31, 2003.

General and Administrative. General and administrative expenses increased to \$34.3 million for the year ended December 31, 2003 from \$30.7 million for the year ended December 31, 2002. Included in general and administrative expenses for the year ended December 31, 2003, are the results of the two companies that we acquired on December 31, 2002, i-STT and Pihana, totaling \$7.5 million.

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U.S. General and Administrative Expenses. U.S. general and administrative expenses decreased to \$28.3 million for the year ended December 31, 2003 as compared to \$30.7 million for the year ended December 31, 2002. Included in U.S. general and administrative expenses were \$5.3 million and \$6.2 million, respectively, of depreciation expense and \$2.6 million and \$5.7 million, respectively, of stock-based compensation expense for the year ended December 31, 2003 and 2002. In addition, U.S. general and administrative expenses for the year ended December 31, 2003, included \$1.5 million of costs associated with a corporate headquarter office acquired from Pihana on December 31, 2002 located in Honolulu. This office was closed as of June 30, 2003. Excluding depreciation, stock-based compensation expense and the costs of the acquired Honolulu office, U.S. general and administrative expenses remained relatively flat at \$18.9 million for the year ended December 31, 2003, as compared to \$18.8 million for the year ended December 31, 2002. General and administrative expenses, excluding depreciation and stock-based compensation, consist primarily of salaries and related expenses, accounting, legal and administrative expenses, professional service fees and other general corporate expenses such as our corporate headquarter office lease. We expect to see a nominal increase in general and administrative spending in the future, although as a percent of revenues, we anticipate a decline in general and administrative spending.

Asia-Pacific General and Administrative Expenses. As a result of the combination that closed on December 31, 2002, we incurred an additional \$6.0 million in general and administrative expenses from our newly-acquired Asia-Pacific operations. Our Asia-Pacific general and administrative expenses, which included \$497,000 of depreciation expense, consist of the same type of costs that we incur in our U.S. operations, namely salaries and related expenses, accounting, legal and administrative expenses, professional service fees and other general corporate expenses. Our Asia-Pacific general and administrative expenses are generated in Singapore, Tokyo, Hong Kong and Sydney. Our Asia-Pacific headquarter office is located in Singapore. Most of the corporate overhead support functions that we have in the U.S. also reside in our Singapore office in order to support our Asia-Pacific operations. In addition, we have separate corporate office locations in Tokyo and Hong Kong. We expect that our Asia-Pacific general and administrative expenses will remain relatively flat or experience only moderate growth for the foreseeable future.

Restructuring Charges. We did not incur any restructuring charges during the year ended December 31, 2003. During the year ended December 31, 2002, we recorded restructuring charges of \$28.9 million. The restructuring charges consisted of (a) a \$5.0 million option fee paid in May 2002 related to the amendment of our approximately 80 acre ground lease in San Jose, California from which we subsequently elected to exercise the option to permanently exclude 40 acres commencing October 1, 2002; (b) a partial write-off of two letters of credit totaling \$19.0 million associated with the exercise in September 2002 of our option to permanently terminate approximately one-half of our lease obligations under the San Jose ground lease (c) a write-off of property and equipment of \$2.6 million, primarily leasehold improvements and some equipment, located in two unnecessary U.S. IBX expansion and headquarter office space operating leaseholds we had decided to exit and that do not currently provide any ongoing benefit and (d) write-offs or accruals of certain U.S. or European exit costs and severance charges.

Interest Income. Interest income decreased to \$296,000 from \$998,000 for the year ended December 31, 2003 and 2002, respectively. Interest income decreased due to lower average cash, cash equivalent and short-term investment balances held in interest-bearing accounts and lower interest rates received on those invested balances.

Interest Expense. Interest expense decreased to \$20.5 million from \$35.1 million for the year ended December 31, 2003 and 2002, respectively. The significant decrease in interest expense was primarily attributable to the retirement of \$169.5 million of our 13% senior notes during 2002. In addition, we reduced the interest expense attributed to our credit facility as a result of a reduction in the principal balance outstanding and a reduction in the interest rates. However, these interest expense savings were partially offset by the approximately \$7.3 million of non-cash interest expense associated with the \$30.0 million 14% convertible secured note issued on December 31, 2002 as a result of the financing, and the \$10.0 million 10% convertible

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secured notes issued on June 5, 2003 as a result of the Crosslink financing. We recorded a substantial debt discount equal to the \$10.0 million of principal in connection with the Crosslink financing, primarily as a result of the beneficial conversion feature associated with these convertible secured notes, which is being amortized to interest expense over the term of the Crosslink financing. This is a primary contributor to our increased non-cash interest expense from the prior period.

Gain on Debt Extinguishment. During the year ended December 31, 2002, we retired approximately \$169.5 million of senior notes in exchange for approximately 2.4 million shares of common stock and \$17.7 million of cash. As a result, we recognized a \$114.2 million net gain on debt extinguishment during 2002, after deducting transaction costs, interest waived and allocation of unamortized debt issuance costs and debt discount. Although we made payments on our various debt facilities during 2003, we extinguished no senior notes or other debt during the year ended December 31, 2003.

Income Taxes. A full valuation allowance is recorded against our deferred tax assets as management cannot conclude, based on available objective evidence, when it is more likely than not that the gross value of its deferred tax assets will be realized.

Years Ended December 31, 2002 and 2001

Revenues. We recognized revenues of \$77.2 million for the year ended December 31, 2002, as compared to revenues of \$63.4 million for the year ended December 31, 2001. Revenues consisted of recurring revenues of \$65.3 million and \$57.6 million, respectively, for the year ended December 31, 2002 and 2001, primarily from the leasing of cabinet space, power and cross connects. Non-recurring revenues were \$11.9 million and \$5.8 million, respectively, for the year ended December 31, 2002 and 2001, primarily related to the recognized portion of deferred installation revenue and custom service revenues and settlement fees associated with certain customer right-sizing or contract terminations. Settlement fees recognized during the year ended December 31, 2002 totaled approximately \$4.5 million, including a \$2.8 million one-time settlement with Qwest received in the third quarter of 2002, and approximately \$562,000 for the corresponding period in 2001. Installation and service fees are recognized ratably over the term of the contract. Custom service revenues are recognized upon completion of the services. Settlement fees are recognized upon contract termination. In February and March 2002, we entered into equipment reseller agreements with two related party companies. Included within the \$11.9 million of non-recurring revenues for the year ended December 31, 2002, were \$2.9 million of equipment resales resulting from these two equipment reseller agreements. There were no equipment resales in the year ended December 31, 2001. Excluding equipment resales, we recognized revenues of \$74.2 million for the year ended December 31, 2002 as compared to revenues of \$63.4 million for the year ended December 31, 2001, a 17% increase.

The period over period growth in revenues was primarily the result of an increase in orders from existing customers and growth in our customer base from 218 customers as of December 31, 2001 to 303 customers as of December 31, 2002 on a pre-combination basis and settlement fees associated with certain customer right-sizing or contract terminations. However, this growth in our customer base was partially offset by a number of our larger customers reducing the size of their contractual commitments to us. We refer to this effort as the "right-sizing" of our larger customer contracts. During late 2001 and throughout 2002, we proactively worked with certain of our larger customers to right-size their contractual commitments to help them better react to a slowdown in customer demand as a result of weaker economic conditions. Although these right-sizing efforts often result in a reduction in the number of cabinets these customers are obligated to pay for, many of these right-sizing efforts have resulted in the customer extending the term for the remaining cabinets. As a result, although the short-term recurring revenues from such customers are reduced, the overall contract value at times remains intact and the relationship with the customer is preserved, if not improved. As of December 31, 2002, we had successfully completed the right-sizing of most of our customers that had more than 100 cabinets booked, a booking level that represents our larger customers. These right-sizing efforts were, throughout 2002, netted out against our new customer cabinet bookings, limiting our overall revenue growth during this period.

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Commencing in fiscal 2003, our revenues included revenues from our newly-acquired Asia-Pacific operations. We expect that revenues commencing in 2003 will be split approximately 85% in the U.S. and 15% in Asia-Pacific.

Cost of Revenues. Cost of revenues increased to \$104.1 million for the year ended December 31, 2002 from \$94.9 million for the year ended December 31, 2001. These amounts included \$47.8 million and \$40.0 million, respectively, of depreciation expense and \$266,000 and \$426,000, respectively, of stock-based compensation expense. In addition to depreciation and stock-based compensation, cost of revenues consists primarily of rental payments for our leased IBX hubs, site employees' salaries and benefits, utility costs, power and redundancy system engineering support services and related costs and security services. Furthermore, cost of revenues for the year ended December 31, 2002 included the costs associated with \$2.9 million in equipment sales we recorded, which was approximately \$2.8 million. Excluding depreciation, stock-based compensation expense and the costs of equipment sales, cost of revenues decreased slightly period over period to \$53.1 million for the year ended December 31, 2002 from \$54.4 million for the year ended December 31, 2001, a 2% decrease.

Cost of revenues for the year ended December 31, 2001 included \$5.0 million in costs related to our European expansion plans. Due to the restructuring charge that we recorded in the third quarter of 2001, these costs were not in our cash cost of revenues for the year ended December 31, 2002; however, these savings were partially offset by the additional costs incurred of \$3.7 million from (a) our newest and largest IBX hub opened during the first quarter of 2002 in the New York metropolitan area and (b) the costs associated with the ramp-up of our existing IBX hubs. In September 2002, we exercised an option to reduce the monthly operating costs under the San Jose ground lease by approximately one-half commencing October 2002, which resulted in savings of approximately \$1.1 million as compared to the prior year. We anticipate that the costs associated with the continued ramp-up of our IBX hubs and the additional costs associated with some of our new services, such as bandwidth, will continue to increase in the foreseeable future; however, the cost savings resulting from the elimination of approximately half of the San Jose ground lease costs, which commenced in October 2002, should offset most of these increases for the foreseeable future in the U.S. However, commencing in fiscal 2003, our cost of revenues included the cost of revenues associated with our Asia-Pacific operations.

Sales and Marketing. Sales and marketing expenses decreased to \$15.2 million for the year ended December 31, 2002 from \$16.9 million for the year ended December 31, 2001. These amounts included \$952,000 and \$2.8 million, respectively, of stock-based compensation expense. In addition, we recorded \$2.3 million in bad debt expense for the year ended December 31, 2002, as compared to \$477,000 recorded in the prior year. This substantial increase in bad debt expense was primarily the result of full provisions against aged receivables associated with two customers, Teleglobe and WorldCom, both of which filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code in 2002. Excluding stock-based compensation and bad debt expense, cash sales and marketing costs decreased to \$12.0 million for the year ended December 31, 2002 from \$13.6 million for the year ended December 31, 2001, a 12% decrease. Cash sales and marketing expenses consist primarily of compensation and related costs for sales and marketing personnel, sales commissions, marketing programs, public relations, promotional materials and travel. The decrease in sales and marketing expenses is the result of several cost saving initiatives that we undertook, including staff reductions of approximately 25% during 2001 that resulted in approximately \$2.6 million in annual savings in sales and marketing costs and an overall decrease in discretionary spending. We continue to closely monitor our spending in all areas as a result of the current market conditions. However, commencing in fiscal 2003, our sales and marketing expenses included the sales and marketing expenses associated with our Asia-Pacific operations.

General and Administrative. General and administrative expenses decreased to \$30.7 million for the year ended December 31, 2002 from \$58.3 million for the year ended December 31, 2001. These amounts included \$5.7 million and \$15.8 million, respectively, of stock-based compensation expense and \$6.2 million and \$9.6 million, respectively, of depreciation expense, resulting in \$14.1 million or 43% decrease in period over period cash spending. Cash general and administrative expenses consist primarily of salaries and related expenses, accounting, legal and administrative expenses, professional service fees and other general corporate expenses.

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The significant decrease in general and administrative expenses was primarily the result of several cost saving initiatives that we undertook, including staff reductions of approximately 25% during 2001 that resulted in approximately \$4.9 million in annual savings in general and administrative costs and an overall decrease in discretionary spending. We continue to closely monitor our spending as a result of the current market conditions. However, commencing in fiscal 2003, our general and administrative expenses included the general and administrative expenses associated with our Asia-Pacific operations.

Restructuring Charges. During the year ended December 31, 2002, we recorded restructuring charges of \$28.9 million. The restructuring charges consisted of (a) a \$5.0 million option fee paid in May 2002 related to the amendment of our approximately 80 acre ground lease in San Jose, California from which we subsequently elected to exercise the option to permanently exclude 40 acres commencing October 1, 2002; (b) a write-off of property and equipment of \$2.6 million, primarily leasehold improvements and some equipment, located in two unnecessary U.S. IBX expansion and headquarter office space operating leaseholds we had decided to exit and that do not currently provide any ongoing benefit; (c) a write-off of one U.S. letters of credit totaling \$250,000 related to one U.S. operating leasehold we had committed to exit; (d) an accrual of \$1.0 million related to the remaining estimated European exit costs; (e) an accrual of \$925,000 in severance charges related to a less than 10% reduction in workforce in an effort to reduce the cost structure of our corporate headquarter function that will result in approximately \$2.8 million in annual savings; (f) an accrual of \$115,000 related to additional U.S. leasehold exit costs and (g) a partial write-off of two letters of credit totaling \$19.0 million associated with the exercise in September 2002 of our option to permanently terminate approximately one-half of our lease obligations under the San Jose ground lease.

During the quarter ended September 30, 2001, the Company took a restructuring charge of \$48.6 million consisting of \$45.3 million related to a revised European services strategy, \$2.0 million for certain anticipated excess U.S. leasehold exit costs and \$1.3 million related to a reduction in workforce, primarily in selling, general and administrative functions at the Company's headquarters. During third quarter 2001, the Company decided to partner with another Internet exchange company in Europe rather than build and operate its own centers outside of the U.S. As a result, the Company i) recorded a write-down of its European construction in progress assets to their net realizable value and recorded a charge totaling \$29.3 million, ii) accrued certain leasehold exit costs for its European leasehold interests in the amount of \$6.4 million, iii) wrote-off its European letters of credit that secured the European leasehold interests in the amount of \$8.6 million and iv) accrued various legal, storage and other costs totaling \$1.0 million to facilitate this change in strategy. In addition, the Company incurred a \$2.0 million restructuring charge for leasehold exit costs associated with certain excess U.S. leases and a \$1.3 million restructuring charge related to an approximate 15% reduction in workforce in an effort to streamline and reduce the cost structure of the Company's headquarter function.

As of December 31, 2002, a total restructuring reserve of \$1.7 million remained outstanding for all of the above accrued but unpaid restructuring charges. We began to realize the cost savings benefits resulting from the partial San Jose ground lease termination in cost of revenues during October 2002.

Interest Income. Interest income decreased to \$998,000 from \$10.7 million for the year ended December 31, 2002 and 2001, respectively. Interest income decreased due to lower cash, cash equivalent and short-term investment balances held in interest bearing accounts and lower interest rates received on those invested balances.

Interest Expense. Interest expense decreased to \$35.1 million from \$43.8 million for the year ended December 31, 2002 and 2001, respectively. The decrease in interest expense was attributable to the retirement of \$52.8 million of our 13% senior notes during the first half of 2002 and to the decline in both the principal due and the interest rates associated with our credit facility.

Gain on Debt Extinguishment. During the first half of 2002, we retired \$52.8 million of our senior notes in exchange for approximately 500,000 shares of our common stock and approximately \$2.5 million of cash. On

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December 31, 2002, we retired an additional \$116.8 million of our senior notes in exchange for approximately 1.9 million shares of our common stock and approximately \$15.2 million of cash. As a result of these transactions, we recognized a \$114.2 million net gain on debt extinguishment during 2002, after deducting transaction costs, interest waived and allocation of unamortized debt issuance costs and debt discount. Although we made payments on our various debt facilities during 2001, we extinguished no senior notes or other debt during the year ended December 31, 2001.

Liquidity and Capital Resources

Since inception, we have financed our operations and capital requirements primarily through the issuance of senior notes, the private sale of preferred stock, our initial and follow-on public stock offerings, our credit facility, our convertible secured notes, our combination with i-STT and Pihana, which brought additional cash into the combined company, and various types of debt facilities and capital lease obligations, for aggregate gross proceeds of \$1.0 billion. As of December 31, 2003, our total indebtedness from our non-convertible debt was \$68.3 million and our total indebtedness from our convertible debt was \$43.6 million as outlined below.

On February 11, 2004, we sold \$75.0 million in aggregate principal of 2.5% convertible subordinated debentures due 2024 to qualified institutional buyers. Subsequently, on February 18, 2004, we sold an additional \$11.25 million of our debentures to the initial purchasers of these debentures. We used or intend to use the net proceeds from this offering to repay all amounts outstanding under our credit facility and two of our other debt facilities. In addition, we intend to use the proceeds received to redeem our 13% senior notes. We have exercised our right to redeem all of its 13% senior notes, which have a total of \$30.5 million of principal outstanding and have sent a notice of redemption to the trustee. The effective date of the redemption is expected to be March 12, 2004. The redemption price for the senior notes will be equal to 106.5% of their principal amount plus accrued and unpaid interest to the redemption date. Lastly, all remaining proceeds will be used for general corporate purposes. We expect to record a significant loss on debt extinguishment during the quarter ended March 31, 2004, primarily related to the non-cash write-off of debt issuance costs and discounts in connection with these various debt repayments and redemptions, as well as the cash premium we will pay on our 13% senior notes. We refer to this transaction as the “convertible debenture offering”.

As of December 31, 2003, our principal source of liquidity was our \$73.0 million of cash, cash equivalents and short-term investments. We believe that this cash, coupled with the proceeds from the convertible debenture offering and our anticipated cash flows generated from operations, will be sufficient to meet our capital expenditure, working capital, debt service, including repayments and redemptions of our non-convertible debt as planned, and corporate overhead requirements for at least the next 12 months.

While we had generated negative operating cashflow in each annual period since inception, commencing the quarter ended September 30, 2003 we started to generate positive operating cash flow. During this quarter, our recurring revenues grew to a level sufficient to meet our operating cash requirements related to our predominantly fixed cost structure. We considered this quarter to be the inflection point in our business model whereby our revenues were sufficient on an ongoing basis to meet all our operating costs and working capital requirements. As a result of reaching this point in our operating history, we expect to generate cash from our operations during 2004 and expect these operating cash flows to be sufficient to meet our cash requirements to fund our capital expenditures. Given our limited operating history, we may not achieve our desired levels of profitability. See “Risk Factors.”

Uses of Cash

Net cash used in our operating activities was \$17.3 million, \$27.5 million and \$68.9 million for the years ended December 31, 2003, 2002 and 2001, respectively. We used cash during these periods primarily to fund our net loss, including cash interest payments on our senior notes and credit facility, although the majority of the operating cash flows used in 2003 related to the liquidation of accrued obligations at December 31, 2002

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attributed to the combination and financing transactions and restructuring activities. Our net cash used in operations has decreased each year as our revenues have grown. As described above, we expect that we will generate cash from our operating activities in 2004.

Net cash used in investing activities was \$15.6 million, \$7.5 million and \$153.0 million for the years ended December 31, 2003, 2002 and 2001, respectively. Net cash used in investing activities in during the year ended December 31, 2003 was primarily to fund capital expenditures to support our growing customer base and the purchase of short-term investments. Net cash used in investing activities during the year ended December 31, 2002 was primarily attributable to the liquidation of accrued construction costs for the New York metropolitan area IBX hub, which opened during the first quarter of 2002, partially offset by the sale of short-term investments. Net cash used in investing activities during the year ended December 31, 2001 was primarily attributable to the construction of our IBX hubs and the purchase of restricted cash and short-term investments. The amount of cash used in investing activities has decreased substantially since 2001 as we have substantially completed our current IBX hub rollout plan. For 2004, we anticipate that our cash used in investing activities, excluding the purchase and sale of short-term investments, will be attributed to the funding of our capital expenditures.

Net cash generated by financing activities was \$52.3 million, \$16.9 million and \$107.8 million for the years ended December 31, 2003, 2002 and 2001, respectively. Net cash generated by financing activities during the year ended December 31, 2003 was primarily the result of the \$104.4 million in proceeds from our follow-on equity offering and \$10.0 million in proceeds from the Crosslink financing, partially offset by \$57.2 million in payments on our credit facility and \$6.1 million in payments on our various other debt facilities and capital lease obligations. Net cash generated by financing activities during the year ended December 31, 2002 was primarily attributable to the cash acquired in the acquisitions of i-STT and Pihana and proceeds from our \$30.0 million convertible secured notes, offset by payments of \$17.7 million used to retire approximately \$169.5 million of our senior notes and the costs associated with the exchange of the senior notes and repayments under our credit facility of \$13.5 million. Net cash generated by financing activities during the year ended December 31, 2001 was primarily attributable to the net \$105.0 million draw down under our credit facility.

Debt Obligations—Non-Convertible Debt

As of December 31, 2003, our total indebtedness from non-convertible debt was \$68.3 million, comprised of our senior notes, credit facility, and other debt facilities and capital lease obligations as follows:

Senior Notes. In December 1999, we issued \$200.0 million aggregate principal amount of 13% senior notes due 2007. During 2002, we retired \$169.5 million of the senior notes in exchange for approximately 2.4 million shares of common stock and approximately \$21.3 million of cash. As of December 31, 2003, a total of \$30.5 million of senior note principal remained outstanding, which is presented, net of unamortized discount, on our balance sheet at \$29.2 million. In February 2004, with the net proceeds from our convertible debenture offering, we have exercised our right to redeem all of our senior notes. A notice has been sent to the trustee and the effective date of the redemption of our senior notes is expected to be March 12, 2004. The redemption price for the senior notes will be equal to 106.5% of their principal amount plus accrued and unpaid interest to the redemption date.

Credit Facility. In December 2000, we entered into the credit facility with a syndicate of lenders under which, subject to our compliance with a number of financial ratios and covenants, we were permitted to borrow up to \$150.0 million, which was fully drawn down during 2001. This facility was amended at various times during 2001 and 2002. In connection with the follow-on equity offering in November 2003, we entered into a further amendment to the credit facility and permanently repaid \$55.2 million of the then outstanding principal balance of \$90.5 million. As of December 31, 2003, a total of \$34.3 million of principal remained outstanding under the credit facility. In February 2004, with the net proceeds from our convertible debenture offering, we repaid all amounts outstanding under our credit facility and terminated the credit facility.

Other Debt Facilities and Capital Lease Obligations. In August 1999, we entered into a loan agreement with Venture Lending and Leasing in the amount of \$10.0 million and fully drew down on this amount. This loan agreement bears interest at 8.5% and was repayable over 42 months in equal monthly payments with a final interest payment equal to 15% of the advance amounts due on maturity. In October 2002, we amended the loan agreement to secure certain short-term cash deferment benefits. Under the terms of this amendment, we extended the maturity of the loan by 24 months and amortized the remaining principal balance and related balloon interest payment over this amended period ending March 1, 2005. In exchange, the Company issued new warrants and re-priced the original warrants. As of December 31, 2003, principal of \$847,000 remained outstanding. In March 2004, with the net proceeds from our convertible debenture offering, we will pay off this other debt facility in full.

In June 2001, we entered into a loan agreement with Heller Financial Leasing in the amount of \$5.0 million and fully drew down on this amount. This loan agreement bears interest at 13.0% and is repayable over 36 months. In August 2002, we amended this loan to secure certain short-term cash deferments. Under the amended terms of this loan agreement, we extended the maturity of the loan by nine months. Commencing September 2002, we began to benefit from the reduction in monthly payments over the following 14 months thereby deferring approximately \$1.2 million of principal payments. Commencing November 2003, the deferred principal payments will be repaid over the remaining 17 months of the loan ending March 2005. As of December 31, 2003, principal of \$2.5 million remained outstanding. In February 2004, with the net proceeds from our convertible debenture offering, we paid off this other debt facility in full.

In December 2002, in conjunction with our merger with Pihana, we acquired multiple capital leases with Orix. The original amount financed was approximately \$3.5 million. These capital lease arrangements bear interest at an average rate of 6.4% per annum and are repayable over 30 months. As of December 31, 2003, principal of \$201,000 remained outstanding. These capital leases will be fully paid down by March 31, 2004.

As of December 31, 2003, a total of \$3.5 million of our other debt facilities and capital lease obligations were outstanding, which is presented, net of unamortized discount, on our balance sheet at \$3.4 million.

Debt Obligations—Convertible Debt

Convertible Secured Notes. In December 2002, in conjunction with the combination, STT Communications made a \$30.0 million strategic investment in the company in the form of a 14% convertible secured note due November 2007. The interest on the convertible secured note is payable in kind in the form of additional convertible secured notes, which we refer to as “PIK notes”. During 2003, we issued \$3.6 million in PIK notes. The convertible secured note and PIK notes issued to STT Communications are convertible into our preferred and common stock at a price of \$9.18 per underlying share, which represents 3.7 million shares as of December 31, 2003, and are convertible anytime at the option of STT Communications. After December 31, 2004 and through December 31, 2005, we may convert 95% of the STT Communications’ convertible secured notes and after December 31, 2005, we may convert 100% of these convertible secured notes upon certain conditions, including if the closing price of our common stock exceeds \$32.12 per share for thirty consecutive trading days.

In June 2003, entities affiliated with Crosslink Capital made a \$10.0 million strategic investment in the company in the form of 10% convertible secured notes due November 2007. The interest on the convertible secured notes is payable in kind in the form of additional convertible secured notes commencing on the second anniversary of the closing of this transaction. As of December 31, 2003, the convertible secured notes issued to the entities affiliated with Crosslink were convertible into 2.5 million shares of our common stock, and are convertible anytime at the option of Crosslink Capital. Following the second anniversary of the closing of the Crosslink financing, 100% of the Crosslink convertible secured notes will automatically convert upon certain conditions, including if the closing price of our common stock exceeds \$15.66 per share for thirty consecutive trading days. We recorded a substantial debt discount equal to the \$10.0 million of principal in connection with the Crosslink financing, primarily as a result of the beneficial conversion feature associated with these convertible secured notes, which is being amortized to interest expense over the term of the Crosslink financing.

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As of December 31, 2003, a total of \$43.6 million of convertible secured notes were outstanding, which is presented, net of unamortized discount, on our balance sheet at \$31.7 million. All interest expense associated with our convertible secured notes, including the amortization of the unamortized discount of \$11.9 million, represents non-cash interest expense in our statements of operation and cash flow as no cash is expended for this interest.

Convertible Subordinated Debentures. On February 11, 2004, we sold \$75.0 million in aggregate principal of 2.5% convertible subordinated debentures due 2024 to qualified institutional buyers. Subsequently, on February 18, 2004, we sold an additional \$11.25 million of our debentures to the initial purchasers of these debentures. We used the net proceeds from this offering to repay all amounts outstanding under our credit facility and two of our other debt facilities. In addition, we intend to use additional proceeds received to redeem our 13% senior notes. We have exercised our right to redeem all of its 13% senior notes, which have a total of \$30.5 million of principal outstanding and have sent a notice of redemption to the trustee. The effective date of the redemption is expected to be March 12, 2004. Lastly, all remaining proceeds will be used for general corporate purposes. The interest on the convertible subordinated debentures is payable semi-annually every February and August commencing August 2004. Unlike our convertible secured notes, the interest on our convertible subordinated debentures will be payable in cash. Our convertible subordinated debentures will be convertible into 2.2 million shares of our common stock.

Holders of the convertible subordinated debentures may require us to purchase all or a portion of their debentures on February 15, 2009, February 15, 2014 and February 15, 2019, in each case at a price equal to 100% of the principal amount of the debentures plus any accrued and unpaid interest. In addition, holders of the convertible subordinated debentures may convert their debentures into shares of our common stock upon certain defined circumstances, including during any calendar quarter after the quarter ending June 30, 2004 if the closing price of our common stock exceeds \$47.40 per share for twenty consecutive trading days. We may redeem all or a portion of the debentures at any time after February 15, 2009 at a redemption price equal to 100% of the principal amount of the debentures plus any accrued and unpaid interest.

Debt Maturities and Operating Lease Commitments

We lease our IBX hubs and certain equipment under non-cancelable operating lease agreements expiring through 2020. The following represents the minimum future operating lease payments for these commitments, as well as the combined aggregate maturities for all of our debt as of December 31, 2003 (in thousands):

	Debt facilities & capital lease obligations	Credit facility	Senior notes	Convertible secured notes	Operating leases	Total
2004	\$ 2,798	\$ 12,000	\$ —	\$ —	\$ 28,339	\$ 43,137
2005	729	12,000	—	—	31,072	43,801
2006	—	10,281	—	—	31,900	42,181
2007	—	—	30,475	43,598	32,330	106,403
2008 and thereafter	—	—	—	—	232,943	232,943
	<u>\$ 3,527</u>	<u>\$ 34,281</u>	<u>\$ 30,475</u>	<u>\$ 43,598</u>	<u>\$ 356,584</u>	<u>\$ 468,465</u>

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If the Company had completed the convertible subordinated debenture offering during 2003 instead of February 2004, and had used the proceeds from this offering to repay all amounts outstanding under our credit facility and two of our other debt facilities, as well as redeemed all remaining senior notes, as intended, the obligations presented above would have been as follows on a pro forma basis as of December 31, 2003 (in thousands):

	<u>Debt facilities & capital lease obligations</u>	<u>Convertible secured notes</u>	<u>Convertible subordinated debentures</u>	<u>Operating leases</u>	<u>Total</u>
2004	\$ 201	\$ —	\$ —	\$ 28,339	\$ 28,540
2005	—	—	—	31,072	31,072
2006	—	—	—	31,900	31,900
2007	—	43,598	—	32,330	75,928
2008 and thereafter	—	—	86,250	232,943	319,193
	<u>\$ 201</u>	<u>\$ 43,598</u>	<u>\$ 86,250</u>	<u>\$356,584</u>	<u>\$ 486,633</u>

As of December 31, 2003, we had capital expenditure commitments of approximately \$1.0 million related to a small expansion of our Singapore IBX hub, which we expect to fund during the first half of 2004. In addition, we expect to spend approximately \$3.0 to \$5.0 million to bring our recently-acquired Santa Clara IBX hub to Equinix standards during the first half of 2004.

With respect to the operating lease for one of our New York metropolitan area IBXs, our landlord has the right to increase our rentable space on December 31, 2004 when the lease for the current tenant's portion of the aggregate property lease expires. As a result, commencing fiscal 2005, our total rent expense associated with this IBX hub could double. This increase in our operating lease commitments is reflected in the tables presented above. We are currently working with this landlord, as well as the current tenant of that space, and expect to minimize this additional cost to us; however, there can be no assurances that we will be successful in reducing this commitment.

Strategically, we will continue to look at attractive opportunities to grow our market share and selectively improve our footprint and service streams, such as our recent acquisition of the Sprint property in Santa Clara. However, we will continue to be very selective with any similar opportunity. As was the case with the Sprint property, the criteria will be quality of the design, access to networks, capacity availability in current market location, amount of incremental investment in the targeted property, lead-time to breakeven and in-place customers. Like the Sprint property, the right combination of these factors may be quite attractive for us. Dependent on the particular deal, these acquisitions may require additional capital expenditures in order to bring these centers up to Equinix standards.

RISK FACTORS

In addition to the other information in this report, the following risk factors should be considered carefully in evaluating our business and us:

Risks Related to Our Business

We have a limited operating history and we face challenges typically experienced by early-stage companies.

We were founded in June 1998 and did not recognize any revenue until November 1999. In October 2002, we entered into agreements to consummate a series of related acquisition and financing transactions. These transactions closed on December 31, 2002. Under the terms of these agreements, we combined our business with two similar businesses, that of i-STT Pte Ltd, or i-STT, and Pihana Pacific, Inc., or Pihana. We refer to this transaction as the combination. i-STT was founded in January 2000 and did not recognize any revenue until May 2000. Pihana was founded in June 1999 and did not recognize any revenue until June 2000. We expect that we will encounter challenges and difficulties frequently experienced by early-stage companies in new and rapidly evolving international markets, such as our ability to generate cash flow, hire, train and retain sufficient operational and technical talent, and implement our plan with minimal delays. We may not successfully address any or all of these challenges and our failure to do so would seriously harm our business plan and operating results, and affect our ability to raise additional funds.

Equinix's, i-STT's and Pihana's businesses have incurred substantial losses in the past, may continue to incur additional losses in the future and will not be profitable until the combined company reverses this trend.

For the year ended December 31, 2003, the combined company incurred losses of \$84.2 million. Until the quarter ended September 30, 2003, the combined company did not generate cash from operations. There can be no guarantee that the combined company will become profitable and the combined company may continue to incur additional losses. Even if the combined company achieves profitability, given the competitive and evolving nature of the industry in which it operates, the combined company may not be able to sustain or increase profitability on a quarterly or annual basis.

We expect our operating results to fluctuate.

Equinix has experienced fluctuations in its results of operations on a quarterly and annual basis. The fluctuation in our operating results may cause the market price of our common stock to decline. We expect to experience significant fluctuations in our operating results in the foreseeable future due to a variety of factors, including:

- acquisition of additional IBX hubs;
- demand for space and services at our IBX hubs;
- changes in general economic conditions and specific market conditions in the telecommunications and Internet industries;
- the provision of customer discounts and credits;
- the mix of current and proposed products and services and the gross margins associated with our products and services;
- competition in the markets;
- conditions related to international operations;
- the operating costs attributable to our real and personal property tax obligations related to our IBX hubs;

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- potential impairment charges on our long-lived assets including property and equipment and goodwill if certain of our IBX hub markets do not meet performance expectations;
- the timing and magnitude of operating expenses, capital expenditures and expenses related to the expansion of sales, marketing, operations and acquisitions, if any, of complementary businesses and assets; and
- the cost and availability of adequate public utilities, including power.

Any of the foregoing factors, or other factors discussed elsewhere in this offering memorandum, could have a material adverse effect on our business, results of operations, and financial condition. Although the combined company has experienced growth in revenues in recent quarters, this growth rate is not necessarily indicative of future operating results. It is possible that the combined company may never generate net income on a quarterly or annual basis. In addition, a relatively large portion of our expenses are fixed in the short-term, particularly with respect to lease and personnel expenses, depreciation and amortization, and interest expenses. Therefore, our results of operations are particularly sensitive to fluctuations in revenues. As such, comparisons to prior reporting periods should not be relied upon as indications of the combined company's future performance. In addition, our operating results in one or more future quarters may fail to meet the expectations of securities analysts or investors. If this occurs, we could experience an immediate and significant decline in the trading price of our stock.

Our inability to use our tax net operating losses will cause us to pay taxes at an earlier date and in greater amounts which may harm our operating results.

We believe that our ability to use our tax net operating losses, or NOLs, in any taxable year is subject to limitation under Section 382 of the Code as a result of the significant change in the ownership of our stock that resulted from the combination. We expect that almost all of our NOLs accrued prior to December 31, 2002 will expire unused as a result of this limitation. In addition to the limitations on NOL carryforward utilization described above, we believe that Section 382 of the Code will also significantly limit our ability to use the depreciation and amortization on our assets, as well as certain losses on the sale of our assets, to the extent that such depreciation, amortization and losses reflect unrealized depreciation that was inherent in such assets as of the date of the combination. These limitations will cause us to pay taxes at an earlier date and in greater amounts than would occur absent such limitations.

If we cannot effectively integrate and manage international operations, our revenues may not increase and our business and results of operations would be harmed.

In 2002, our sales outside North America represented less than 1% of our revenues, i-STT's sales outside North America represented approximately 100% of its revenues and Pihana's sales outside North America represented approximately 45% of its revenues. For the year ended December 31, 2003, the combined company recognized 15% of its revenues outside North America. We anticipate that, for the foreseeable future, approximately 15% of the combined company's revenues will be derived from sources outside North America. Our management team is comprised primarily of Equinix executives before the combination, some of whom have had limited or no experience overseeing international operations.

To date, the neutrality of the Equinix IBX hubs and the variety of networks available to our customers has often been a competitive advantage for us. In certain of our recently acquired IBX hubs, in Singapore in particular, the limited number of carriers available diminishes that advantage. As a result, we may need to adapt our key revenue-generating services and pricing to be competitive in that market.

We may experience gains and losses resulting from fluctuations in foreign currency exchange rates. To date, the majority of Equinix's revenues and costs have been denominated in U.S. dollars, the majority of i-STT's revenues and costs have been denominated in Singapore dollars and the majority of Pihana's revenues and costs have been denominated in U.S. dollars, Japanese yen and Australian, Hong Kong and Singapore dollars. Although

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the combined company may undertake foreign exchange hedging transactions to reduce foreign currency transaction exposure, it does not currently intend to eliminate all foreign currency transaction exposure. Where our prices are denominated in U.S. dollars, our sales could be adversely affected by declines in foreign currencies relative to the U.S. dollar, thereby making our products more expensive in local currencies. Our international operations are generally subject to a number of additional risks, including:

- costs of customizing IBX hubs for foreign countries;
- protectionist laws and business practices favoring local competition;
- greater difficulty or delay in accounts receivable collection;
- difficulties in staffing and managing foreign operations;
- political and economic instability;
- ability to obtain, transfer, or maintain licenses required by governmental entities with respect to the combined business; and
- compliance with governmental regulation with which we have little experience.

We may make acquisitions, which pose integration and other risks, that could harm our business.

We may seek to acquire additional IBX centers, complementary businesses, products, services and technologies. As a result of these acquisitions, we may be required to incur additional debt and expenditures and issue additional shares of our stock to pay for the acquired business, product, service or technology, which will dilute existing stockholders' ownership interest in the combined company and may delay, or prevent, our profitability. These acquisitions may also expose us to risks such as:

- the possibility that we may not be able to successfully integrate acquired businesses or achieve the level of quality in such businesses to which our customers are accustomed;
- the possibility that senior management may be required to spend considerable time negotiating agreements and integrating acquired businesses; and
- the possible loss or reduction in value of acquired businesses.

On October 27, 2003, we announced that we signed an agreement to sublease Sprint's E|Solutions Internet Center in Santa Clara and acquire certain related assets. Such sublease went into effect on December 1, 2003. In negotiating this transaction we were only able to conduct limited due diligence and received limited representations and warranties. If the subleased facility and acquired assets are not in the condition we believe them to be in, we may be required to incur substantial additional costs to repair the acquired facility and related assets. If incurred, these costs could materially adversely affect our business, financial condition and results of operations.

We cannot assure you that we would successfully overcome these risks or any other problems encountered with these acquisitions.

STT Communications holds a substantial portion of our stock and has significant influence over matters requiring stockholder consent.

As of December 31, 2003, STT Communications owned approximately 28.5% of our outstanding voting stock. In addition, STT Communications is not prohibited from buying shares of our stock in public or private transactions. Because of the diffuse ownership of our stock, STT Communications has significant influence over matters requiring our stockholder approval. Following the expiration on December 31, 2004 of restrictions on STT Communications preventing it from converting its convertible secured notes and warrants into more than 40% of our voting stock, STT Communications may own more than 40% of our voting stock. As a result, STT

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Communications will be able to exercise significant control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, which could prevent or delay a third party from acquiring or merging with us. STT also has a right of first offer which entitles them to participate in an offering of our equity securities, or securities convertible into our equity securities, to maintain their ownership percentage prior to such offering.

We may be forced to take steps, and may be prevented from pursuing certain business opportunities, to ensure compliance with certain tax-related covenants agreed to by us in the combination agreement.

We agreed to a covenant in the combination agreement (which we refer to as the FIRPTA covenant) that we would use all commercially reasonable efforts to ensure that at all times from and after the closing of the combination until such time as neither STT Communications nor its affiliates hold our capital stock or debt securities (or the capital stock received upon conversion of the debt securities) received by STT Communications in connection with the consummation of the transactions contemplated in the combination agreement, none of our capital stock issued to STT Communications would constitute “United States real property interests” within the meaning of Section 897(c) of the Code. Under Section 897(c) of the Code, our capital stock issued to STT Communications would generally constitute “United States real property interests” at such point in time that the fair market value of the “United States real property interests” owned by us equals or exceeds 50% of the sum of the aggregate fair market values of (a) our “United States real property interests,” (b) our interests in real property located outside the U.S., and (c) any other assets held by us which are used or held for use in our trade or business. Given that we currently own significant amounts of “United States real property interests,” we may be limited with respect to the business opportunities we may pursue, particularly if the business opportunities would increase the amounts of “United States real property interests” owned by us or decrease the amount of other assets owned by us. In addition, pursuant to the FIRPTA covenant we may be forced to take commercially reasonable proactive steps to ensure our compliance with the FIRPTA covenant, including, but not limited to, (a) a sale-leaseback transaction with respect to all real property interests, or (b) the formation of a holding company organized under the laws of the Republic of Singapore which would issue shares of its capital stock in exchange for all of our outstanding stock (this reorganization would require the submission of that transaction to our stockholders for their approval and the consummation of that exchange). We will only be required to take these actions if such actions are commercially reasonable for Equinix or our stockholders.

Our non-U.S. customers include numerous related parties of i-STT.

In the past, a substantial portion of i-STT’s financing, as well as its revenues, has been derived from its affiliates, including STT Communications. We continue to have contractual and other business relationships and may engage in material transactions with affiliates of STT Communications. Circumstances may arise in which the interests of STT Communications’ affiliates may conflict with the interests of our other stockholders. In addition, Singapore Technologies Pte Ltd, the parent company of STT Communications, makes investments in various companies; it has invested in the past, and may invest in the future, in entities that compete with us. In the context of negotiating commercial arrangements with affiliates, conflicts of interest have arisen in the past and may arise, in this or other contexts, in the future. We cannot assure you that any conflicts of interest will be resolved in our favor.

A significant number of shares of our capital stock have been issued during 2002 and 2003 and may be sold in the market in the near future. This could cause the market price of our common stock to drop significantly, even if our business is doing well.

We issued a large number of shares of our capital stock to the former Pihana stockholders, STT Communications, and holders of our senior notes in connection with the combination, financing and senior note exchange, to Crosslink Capital in connection with the Crosslink financing and to the public and STT Communications in connection with our recent follow-on equity offering. The shares of common stock issued in the senior note exchange are currently freely tradeable. The shares of common stock issued in connection with

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the combination have been registered for resale as of June 30, 2003 and the shares of common stock issued upon exercise of the warrants issued in connection with the Crosslink financing have been registered for resale as of September 22, 2003. The shares sold to the public and STT Communications in connection with our recent follow-on equity offering are freely tradeable by the public, subject, in the case of STT Communications, to compliance with Rule 144 resale restrictions applicable to affiliates. Subject to the restrictions described in our proxy statement dated December 12, 2002, the convertible secured notes and warrants issued in connection with the financing and the Crosslink financing are immediately convertible or exercisable into shares of common stock and the underlying shares of common stock may be registered for resale. Sales of a substantial number of shares of our common stock by these parties within any narrow period of time could cause our stock price to fall. In addition, the issuance of the additional shares of our common stock as a result of these transactions will reduce our earnings per share, if any. This dilution could reduce the market price of our common stock unless and until we achieve revenue growth or cost savings and other business economies sufficient to offset the effect of this issuance. We cannot assure you that we will achieve revenue growth, cost savings or other business economies.

A significant number of our shares may be sold into the public market if STT Communications defaults on its credit facility which could cause the market price of our common stock to drop significantly.

STT Communications currently holds our common stock or holds securities convertible into shares of our common stock totaling 8,565,520 shares. STT Communications has pledged to its lenders its ownership interest in the majority of its secured notes and warrants purchased in the financing and its common and preferred stock issued in the combination as collateral for its secured credit facility. If STT Communications defaults on its credit facility, the stock, warrants and secured notes owned by STT Communications could be transferred to its lenders or sold to third parties. In the event of default, the new owner of the secured notes and warrants could convert them into our common stock and sell them, along with the common stock, into the public market. Sales of a substantial number of shares of our common stock by these parties within any narrow period of time could cause our stock price to fall. In addition, the issuance of the additional shares of our common stock as a result of these transactions will reduce our earnings per share, if any.

We depend on a number of third parties to provide Internet connectivity to our IBX hubs; if connectivity is interrupted or terminated, our operating results and cash flow will be materially adversely affected.

The presence of diverse telecommunications carriers' fiber networks in our IBX hubs is critical to our ability to attract new customers. We believe that the availability of carrier capacity will directly affect our ability to achieve our projected results.

We are not a telecommunications carrier, and as such we rely on third parties to provide our customers with carrier services. We rely primarily on revenue opportunities from the telecommunications carriers' customers to encourage them to invest the capital and operating resources required to build facilities from their locations to our IBX hubs. Carriers will likely evaluate the revenue opportunity of an IBX hub based on the assumption that the environment will be highly competitive. We cannot assure you that any carrier will elect to offer its services within our IBX hubs or that once a carrier has decided to provide Internet connectivity to our IBX hubs that it will continue to do so for any period of time.

The construction required to connect multiple carrier facilities to our IBX hubs is complex and involves factors outside of our control, including regulatory processes and the availability of construction resources. If the establishment of highly diverse Internet connectivity to our IBX hubs does not occur or is materially delayed or is discontinued, our operating results and cash flow will be adversely affected. Further, many carriers are experiencing business difficulties. As a result, some carriers may be forced to terminate connectivity within our IBX hubs.

Any failure of our physical infrastructure or services could lead to significant costs and disruptions that could reduce our revenue and harm our business reputation and financial results.

Our business depends on providing customers with highly reliable service. We must protect customers' IBX infrastructure and customers' equipment located in our IBX hubs. The services we provide are subject to failure resulting from numerous factors, including:

- human error;
- physical or electronic security breaches;
- fire, earthquake, flood and other natural disasters;
- water damage;
- power loss;
- sabotage and vandalism; and
- failure of business partners who provide the combined company's resale products.

Problems at one or more of our IBX hubs, whether or not within our control, could result in service interruptions or significant equipment damage. We have service level commitment obligations to certain of our customers. As a result, service interruptions or significant equipment damage in our IBX hubs could result in service level commitments to these customers. In the past, a limited number of our customers have experienced temporary losses of power and failure of our services levels on products such as bandwidth connectivity. If we incur significant financial commitments to our customers in connection with a loss of power, or our failure to meet other service level commitment obligations, our liability insurance may not be adequate to cover those expenses. In addition, any loss of services, equipment damage or inability to meet our service level commitment obligations, particularly in the early stage of our development, could reduce the confidence of our customers and could consequently impair our ability to obtain and retain customers, which would adversely affect both our ability to generate revenues and our operating results.

Furthermore, we are dependent upon Internet service providers, telecommunications carriers and other website operators in the U.S., Asia and elsewhere, some of which may have experienced significant system failures and electrical outages in the past. Users of our services may in the future experience difficulties due to system failures unrelated to our systems and services. If for any reason, these providers fail to provide the required services, our business, financial condition and results of operations could be materially adversely impacted.

A portion of the managed services business we acquired in the combination involves the processing and storage of confidential customer information. Inappropriate use of those services could jeopardize the security of customers' confidential information causing losses of data or financially impacting us or our customers. Efforts to alleviate problems caused by computer viruses or other inappropriate uses or security breaches may lead to interruptions, delays or cessation of our managed services.

There is no known prevention or defense against denial of service attacks. During a prolonged denial of service attack, Internet service will not be available for several hours, thus impacting hosted customers' on-line business transactions. Affected customers might file claims against us under such circumstances.

Our business could be harmed by prolonged electrical power outages or shortages, increased costs of energy or general availability of electrical resources.

Our IBX hubs are susceptible to regional costs of power, electrical power shortages, planned or unplanned power outages caused by these shortages such as those that occurred in California during 2001 and in the Northeast in 2003, and limitations, especially internationally, of adequate power resources. The overall power shortage in California has increased the cost of energy, which we may not be able to pass on to our customers.

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We attempt to limit exposure to system downtime by using backup generators and power supplies. Power outages, which last beyond our backup and alternative power arrangements, could harm our customers and our business.

We resell products and services of third parties that may require us to pay for such services even if our customers fail to pay us for the services which may have a negative impact on our operating results.

In order to provide resale services such as bandwidth, managed services, backup and recovery services and other network management services, we will contract with third party service providers. These services require us to enter into fixed term contracts for services with third party suppliers of products and services. If we experience the loss of a customer who has purchased a resale product, we will remain obligated to continue to pay our suppliers for the term of the underlying contracts. The payment of these obligations without a corresponding payment from customers will reduce our financial resources and may have a material adverse affect on our financial performance and operating results.

IBM accounts for a significant portion of our revenues, and the loss of IBM as a customer could significantly harm our business, financial condition and results of operations.

For the year ended December 31, 2003, IBM accounted for 15% of our revenue and as of December 31, 2003 accounted for 11% of our accounts receivable. For the year ended December 31, 2002, IBM accounted for 20% of our revenue and as of December 31, 2002 accounted for 15% of our accounts receivable. We expect that IBM will continue to account for a significant portion of our revenue for the foreseeable future, although we expect revenues received from IBM to decline as a percentage of our total revenues as we add new customers in our IBX hubs. If we lose IBM as a customer, our business, financial condition and results of operations could be adversely affected.

We may not be able to compete successfully against current and future competitors.

Our IBX hubs and other products and services must be able to differentiate themselves from existing providers of space and services for telecommunications companies, web hosting companies and other colocation providers. In addition to competing with neutral colocation providers, we must compete with traditional colocation providers, including local phone companies, long distance phone companies, Internet service providers and web hosting facilities. Likewise, with respect to our other products and services, including managed services, bandwidth services and security services, we must compete with more established providers of similar services. Most of these companies have longer operating histories and significantly greater financial, technical, marketing and other resources than us.

Because of their greater financial resources, some of our competitors have the ability to adopt aggressive pricing policies, especially if they have been able to restructure their debt or other obligations. As a result, in the future, we may suffer from pricing pressure that would adversely affect our ability to generate revenues and adversely affect our operating results. In addition, these competitors could offer colocation on neutral terms, and may start doing so in the same metropolitan areas where we have IBX hubs. Some of these competitors may also provide our target customers with additional benefits, including bundled communication services, and may do so in a manner that is more attractive to our potential customers than obtaining space in our IBX hubs. We believe our neutrality provides us with an advantage over these competitors. However, if these competitors were able to adopt aggressive pricing policies together with offering colocation space, our ability to generate revenues would be materially adversely affected.

We may also face competition from persons seeking to replicate our IBX concept by building new centers or converting existing centers that some of our competitors are in the process of divesting. Competitors may operate more successfully or form alliances to acquire significant market share. Furthermore, enterprises that have already invested substantial resources in peering arrangements may be reluctant or slow to adopt our approach that may replace, limit or compete with their existing systems. In addition, other companies may be able to attract

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the same potential customers that we are targeting. Once customers are located in competitors' facilities, it will be extremely difficult to convince them to relocate to our IBX hubs.

Because we depend on the development and growth of a balanced customer base, failure to attract and retain this base of customers could harm our business and operating results.

Our ability to maximize revenues depends on our ability to develop and grow a balanced customer base, consisting of a variety of companies, including network service providers, site and performance management companies, and enterprise and content companies. The more balanced the customer base within each IBX hub, the better we will be able to generate significant interconnection revenues, which in turn increases our overall revenues. Our ability to attract customers to our IBX hubs will depend on a variety of factors, including the presence of multiple carriers, the mix of products and services offered by us, the overall mix of customers, the IBX hub's operating reliability and security and our ability to effectively market our services. In addition, some of our customers are and will continue to be Internet companies that face many competitive pressures and that may not ultimately be successful. If these customers do not succeed, they will not continue to use the IBX hubs. This may be disruptive to our business and may adversely affect our business, financial condition and results of operations.

Increases in property taxes could adversely affect our business, financial condition and results of operations.

Our IBX hubs are subject to state and local real property taxes. The state and local real property taxes on our IBX hubs may increase as property tax rates change and as the value of the properties are assessed or reassessed by taxing authorities. Many state and local governments are facing budget deficits, which may cause them to increase assessments or taxes. If property taxes increase, our business, financial condition and operating results could be adversely affected.

Our products and services have a long sales cycle that may materially adversely affect our business, financial condition and results of operations.

A customer's decision to license cabinet space in one of our IBX hubs and to purchase additional services typically involves a significant commitment of resources and will be influenced by, among other things, the customer's confidence in our financial strength. In addition, some customers will be reluctant to commit to locating in our IBX hubs until they are confident that the IBX hub has adequate carrier connections. As a result, we have a long sales cycle. Delays due to the length our sales cycle may materially adversely affect our business, financial condition and results of operations.

We are subject to securities class action litigation, which may harm our business and results of operations.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. During the quarter ended September 30, 2001, putative shareholder class action lawsuits were filed against us, a number of our officers and directors, and several investment banks that were underwriters of our initial public offering. The suits allege that the underwriter defendants agreed to allocate stock in our 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. Plaintiffs allege that the prospectus for our initial public offering was false and misleading and in violation of the securities laws because it did not disclose these arrangements. In July 2003, a special litigation committee of our board of directors agreed to participate in a settlement with the plaintiffs. The settlement agreement is subject to court approval and sufficient participation by defendants in similar actions. If the proposed settlement is not approved by the court or a sufficient number of defendants do not participate in the settlement, the defense of this litigation may increase our expenses and divert management's attention and resources. An adverse outcome in this litigation could seriously harm our business and results of operations. In addition, we may, in the future, be subject to other securities class action or similar litigation.

Risks Related to Our Industry

If the economy does not improve and the use of the Internet and electronic business does not grow, our revenues may not grow.

Acceptance and use of the Internet may not continue to develop at historical rates and a sufficiently broad base of consumers may not adopt or continue to use the Internet and other online services as a medium of commerce. Demand for Internet services and products are subject to a high level of uncertainty and are subject to significant pricing pressure, especially in Asia-Pacific. As a result, we cannot be certain that a viable market for our IBX hubs will materialize. If the market for our IBX hubs grows more slowly than we currently anticipate, our revenues will not grow as expected and our operating results will suffer.

Government regulation may adversely affect the use of the Internet and our business.

Various laws and governmental regulations governing Internet related services, related communications services and information technologies, and electronic commerce remain largely unsettled, even in areas where there has been some legislative action. This is true both in the U.S. and the various foreign countries in which we now operate. It may take years to determine whether and how existing laws, such as those governing intellectual property, privacy, libel, telecommunications services, and taxation, apply to the Internet and to related services such as ours. We have limited experience with such international regulatory issues and substantial resources may be required to comply with regulations or bring any non-compliant business practices into compliance with such regulations. In addition, the development of the market for online commerce and the displacement of traditional telephony service by the Internet and related communications services may prompt an increased call for more stringent consumer protection laws or other regulation both in the U.S. and abroad that may impose additional burdens on companies conducting business online and their service providers. The compliance with, adoption or modification of, laws or regulations relating to the Internet, or interpretations of existing laws, could have a material adverse effect on our business, financial condition and results of operation.

Terrorist activity throughout the world and military action to counter terrorism could adversely impact our business.

The September 11, 2001 terrorist attacks in the U.S., the ensuing declaration of war on terrorism and the continued threat of terrorist activity and other acts of war or hostility appear to be having an adverse effect on business, financial and general economic conditions internationally. These effects may, in turn, increase our costs due to the need to provide enhanced security, which would have a material adverse effect on our business and results of operations. These circumstances may also adversely affect our ability to attract and retain customers, our ability to raise capital and the operation and maintenance of our IBX hubs.

Recent Accounting Pronouncements

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," or EITF 00-21. EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. We adopted the provisions of EITF 00-21 during the third quarter of 2003. The adoption of this statement has not had a material impact on our results of operations, financial position or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46, or FIN 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. In December 2003, the FASB

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released a revised version of FIN 46 clarifying certain aspects of FIN 46 and providing certain entities with exemptions from the requirements of FIN 46. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period ending after March 15, 2004. The adoption of Fin 46 did not have a material impact on our results of operations, financial position or cash flows.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group, or DIG, process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. We adopted the provisions of SFAS No. 149 during the third quarter of 2003. The adoption of this statement has not had a material impact on our results of operations, financial position or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. In November 2003, the FASB issued FASB Staff Position No. FASB 150-3 which deferred the measurement provisions of SFAS No. 150 indefinitely for certain mandatorily redeemable non-controlling interests that were issued before November 5, 2003. The FASB plans to reconsider implementation issues and, perhaps, classification or measurement guidance for those non-controlling interests during the deferral period. In 2003, we applied certain disclosure requirements of SFAS No. 150. To date, the impact of the effective provisions of SFAS No. 150 have not had a material impact on our results of operations, financial position or cash flows. While the effective date of certain elements of SFAS No. 150 have been deferred, the adoption of SFAS No. 150 when finalized is not expected to have a material impact on our financial position, results of operations or cash flows.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The following discussion about market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We may be exposed to market risks related to changes in interest rates and foreign currency exchange rates and to a lesser extent we are exposed to fluctuations in the prices of certain commodities, primarily electricity.

In the past, we have employed foreign currency forward exchange contracts for the purpose of hedging certain specifically identified net currency exposures. The use of these financial instruments was intended to mitigate some of the risks associated with fluctuations in currency exchange rates, but does not eliminate such risks. We may decide to employ such contracts again in the future. We do not use financial instruments for trading or speculative purposes.

Interest Rate Risk

Our exposure to market risk resulting from changes in interest rates relates primarily to our investment portfolio. Our interest income is impacted by changes in the general level of U.S. interest rates, particularly since

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the majority of our investments are in short-term instruments. Due to the short-term nature of our investments, we do not believe that we are subject to any material market risk exposure. An immediate 10% increase or decrease in current interest rates would not have a material effect on the fair market value of our investment portfolio. We would not expect our operating results or cash flows to be significantly affected by a sudden change in market interest rates in our investment portfolio.

An immediate 10% increase or decrease in current interest rates would furthermore not have a material impact to our debt obligations due to the fixed nature of our long-term debt obligations, except for the interest expense associated with our credit facility, which bears interest at floating rates, plus applicable margins, based on either the prime rate or LIBOR. As of December 31, 2003, the credit facility had an effective interest rate of 5.96%. Our credit facility was fully paid off in February 2004 with the proceeds from the convertible debenture offering. The fair market value of our long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. These interest rate changes may affect the fair market value of the fixed interest rate debt but does not impact our earnings or cash flows.

The fair market value of our senior notes is based on quoted market prices. The estimated fair value of our senior notes as of December 31, 2003 was approximately \$24.4 million. Our senior notes will be fully redeemed in March 2004 with the proceeds from the convertible debenture offering.

Foreign Currency Risk

Prior to December 31, 2002, all of our recognized revenue had been denominated in U.S. dollars, generated mostly from customers in the U.S., and our exposure to foreign currency exchange rate fluctuations had been minimal. However, commencing in fiscal 2003, as a result of the combination, approximately 15% of our revenues and approximately 18% of our costs were in the Asia-Pacific region, and a large portion of those revenues and costs were denominated in a currency other than the U.S. dollar, primarily the Singapore dollar, Japanese yen and Hong Kong and Australian dollars. As a result, our operating results and cash flows will be impacted due to currency fluctuations relative to the U.S. dollar. Going forward, we continue to expect that approximately 15% of our revenues and costs will continue to be generated and incurred in the Asia-Pacific region in currencies other than the U.S. dollar, similar to 2003.

Furthermore, to the extent that our international sales are denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our services less competitive in the international markets. Although we will continue to monitor our exposure to currency fluctuations, and when appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations, there can be no assurance that exchange rate fluctuations will not adversely affect our financial results in the future.

Commodity Price Risk

Certain operating costs incurred by us are subject to price fluctuations caused by the volatility of underlying commodity prices. The commodities most likely to have an impact on our results of operations in the event of significant price changes are electricity and supplies and equipment used in our IBX hubs. We are closely monitoring the cost of electricity, particularly in California. We do not employ forward contracts or other financial instruments to hedge commodity price risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this Item 8 are listed in Item 15(a)(1) and begin at page F-1 of this Report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There is no disclosure to report pursuant to Item 9.

ITEM 9A. CONTROLS AND PROCEDURES

(a) ***Evaluation of Disclosure Controls and Procedures.*** Our Chief Executive Officer and our Chief Financial Officer, after evaluating the effectiveness of the Company's "disclosure controls and procedures" (as defined in the Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) or 15d-15(e)) as of the end of the period covered by this quarterly report, have concluded that our disclosure controls and procedures are effective based on their evaluation of these controls and procedures required by paragraph (b) of Exchange Act Rules 13a-15 or 15d-15.

(b) ***Changes in Internal Control over Financial Reporting.*** There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

- (a) Identification of Directors. Information concerning the directors of Equinix is set forth under the heading “Election of Directors” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.
- (b) Identification of Executive Officers. Information concerning executive officers of Equinix is set forth under the caption “Other Executive Officers” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.
- (c) Audit Committee Financial Expert. Information concerning Equinix’s audit committee financial expert is set forth under the heading “Report of the Audit Committee of the Board of Directors” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.
- (d) Identification of the Audit Committee. Information concerning the audit committee of Equinix is set forth under the heading “Report of the Audit Committee of the Board of Directors” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.
- (e) Section 16(a) Beneficial Ownership Reporting Compliance. Information concerning compliance with beneficial ownership reporting requirements is set forth under the caption “Compliance with Section 16(a) of the Exchange Act” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.
- (f) Code of Ethics. Information concerning the Equinix Code of Ethics and Business Conduct is set forth under the caption “Code of Ethics and Business Conduct” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference. The Code of Ethics and Business Conduct can also be found on our website, www.equinix.com.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is set forth under the headings “Executive Compensation and Related Information”, and “Report of the Compensation Committee of the Board of Directors” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning shares of Equinix equity securities beneficially owned by certain beneficial owners and by management is set forth under the heading “Security Ownership of Certain Beneficial Owners and Management” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information concerning certain relationships and related transactions is set forth under the heading “Certain Relationships and Related Transactions” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning fees and services of the Company’s principal accountants is set forth under the heading “Report of the Audit Committee of the Board of Directors” in the Equinix Proxy Statement for the 2004 Annual Meeting of Stockholders and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a)(1) Financial Statements:

Report of Independent Auditors	F-1
Consolidated Balance Sheets	F-2
Consolidated Statements of Operations	F-3
Consolidated Statements of Stockholders' Equity and Other Comprehensive Loss	F-4
Consolidated Statements of Cash Flows	F-5
Notes to Consolidated Financial Statements.	F-6

(a)(2) All schedules have been omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(a)(3) Exhibits:

<u>Exhibit Number</u>	<u>Description of Document</u>
2.1(8)	Combination Agreement, dated as of October 2, 2002, by and among Equinix, Inc., Eagle Panther Acquisition Corp., Eagle Jaguar Acquisition Corp., i-STT Pte Ltd, STT Communications Ltd., Pihana Pacific, Inc. and Jane Dietze, as representative of the stockholders of Pihana Pacific, Inc.
3.1(10)	Amended and Restated Certificate of Incorporation of the Registrant, as amended to date.
3.2(10)	Certificate of Designation of Series A and Series A-1 Convertible Preferred Stock.
3.3(9)	Bylaws of the Registrant.
3.4(13)	Certificate of Amendment of the Bylaws of the Registrant.
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4.
4.2(2)	Form of Registrant's Common Stock certificate.
4.6(1)	Common Stock Registration Rights Agreement (See Exhibit 10.3).
4.9(1)	Amended and Restated Investors' Rights Agreement (See Exhibit 10.6).
4.10(9)	Registration Rights Agreement (See Exhibit 10.75).
10.1(1)	Indenture, dated as of December 1, 1999, by and among the Registrant and State Street Bank and Trust Company of California, N.A. (as trustee).
10.2(1)	Warrant Agreement, dated as of December 1, 1999, by and among the Registrant and State Street Bank and Trust Company of California, N.A. (as warrant agent).
10.3(1)	Common Stock Registration Rights Agreement, dated as of December 1, 1999, by and among the Registrant, Benchmark Capital Partners II, L.P., Cisco Systems, Inc., Microsoft Corporation, ePartners, Albert M. Avery, IV and Jay S. Adelson (as investors), and the Initial Purchasers.
10.5(1)	Form of Indemnification Agreement between the Registrant and each of its officers and directors.
10.6(1)	Amended and Restated Investors' Rights Agreement, dated as of May 8, 2000, by and between the Registrant, the Series A Purchasers, the Series B Purchasers, the Series C Purchasers and members of the Registrant's management.
10.8(1)	The Registrant's 1998 Stock Option Plan.
10.9(1)+	Lease Agreement with Carlyle-Core Chicago LLC, dated as of September 1, 1999.
10.10(1)+	Lease Agreement with Market Halsey Urban Renewal, LLC, dated as of May 3, 1999.
10.11(1)+	Lease Agreement with Laing Beaumeade, dated as of November 18, 1998.

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.12(1)+	Lease Agreement with Rose Ventures II, Inc., dated as of June 10, 1999.
10.13(1)+	Lease Agreement with Carrier Central LA, Inc., as successor in interest to 600 Seventh Street Associates, Inc., dated as of August 8, 1999.
10.14(1)+	First Amendment to Lease Agreement with TrizecHahn Centers, Inc. (dba TrizecHahn Beaumeade Corporate Management), dated as of October 28, 1999.
10.15(1)+	Lease Agreement with Nexcomm Asset Acquisition I, L.P., dated as of January 21, 2000.
10.16(1)+	Lease Agreement with TrizecHahn Centers, Inc. (dba TrizecHahn Beaumeade Corporate Management), dated as of December 15, 1999.
10.20(1)+	Agreement between Equinix, Inc. and WorldCom, Inc., dated November 16, 1999.
10.21(1)	Customer Agreement between Equinix, Inc. and WorldCom, Inc., dated November 16, 1999.
10.23(1)	Purchase Agreement between International Business Machines Corporation and Equinix, Inc. dated May 23, 2000.
10.24(2)	2000 Equity Incentive Plan.
10.25(2)	2000 Director Option Plan.
10.26(2)	2000 Employee Stock Purchase Plan.
10.27(2)	Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated June 21, 2000.
10.28(3)+	Lease Agreement with TrizecHahn Beaumeade Technology Center LLC, dated as of July 1, 2000.
10.29(3)+	Lease Agreement with TrizecHahn Beaumeade Technology Center LLC, dated as of May 1, 2000.
10.30(3)+	Lease Agreement with Carrier Central LA, Inc., as successor in interest to 600 Seventh Street Associates, Inc., dated as of August 24, 2000.
10.31(3)+	Lease Agreement with Burlington Associates III Limited Partnership, dated as of July 24, 2000.
10.42(4)+	First Amendment to Deed of Lease with TrizecHahn Beaumeade Technology Center LLC, dated as of March 22, 2001.
10.43(4)+	First Lease Amendment Agreement with Market Halsey Urban Renewal, LLC, dated as of May 23, 2001.
10.44(4)+	First Amendment to Lease with Nexcomm Asset Acquisition I, L.P., dated as of April 18, 2000.
10.45(4)+	Amendment to Lease Agreement with Burlington Realty Associates III Limited Partnership, dated as of December 18, 2000.
10.46(5)	First Modification to Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated as of September 26, 2001.
10.48(5)	2001 Supplemental Stock Plan.
10.53(6)	Second Modification to Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated as of May 20, 2002.
10.54(6)+	Amended and Restated Master Service Agreement by and between International Business Machines Corporation and Equinix, Inc., dated as of May 1, 2002.
10.56(7)+	Second Amendment to Lease Agreement with Burlington Realty Associates III Limited Partnership, dated as of October 1, 2002.
10.58(7)	Form of Severance Agreement entered into by the Company and each of the Company's executive officers.
10.59(9)	Second Amended and Restated Credit and Guaranty Agreement, dated as of December 31, 2002.

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.60(9)	Governance Agreement by and among Equinix, Inc., STT Communications Ltd., i-STT Communications Ltd., STT Investments Pte Ltd and the Pihana Pacific stockholder named therein, dated as of December 31, 2002.
10.61(9)	Tenancy Agreement over units #06-01, #06-05, #06-06, #06-07 and #06-08 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.62(9)	Tenancy Agreement over units #05-05, #05-06, #05-07 and #05-08 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.63(9)	Tenancy Agreement over units #03-01 and #03-02 of Block 28 Ayer Rajah Crescent, Singapore 139959.
10.64(9)	Tenancy Agreement over units #05-01, #05-02, #05-03 and #05-04 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.65(9)	Tenancy Agreement over units #03-05, #03-06, #03-07 and #03-08 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.69(9)	Lease Agreement with Downtown Properties, LLC dated April 10, 2000, as amended.
10.70(9)	Lease Agreement with Comfort Development Limited dated November 10, 2000.
10.71(9)	Lease Agreement with PacEast Telecom Corporation dated June 15, 2000, as amended.
10.72(9)	Lease Agreement Lend Lease Real Estate Investments Limited dated October 20, 2000.
10.73(9)	Lease Agreement with AIPA Properties, LLC dated November 1, 1999, as amended.
10.74(9)	Third Modification to Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated as of September 30, 2002.
10.75(9)	Registration Rights Agreement by and among Equinix and the Initial Purchasers, dated as of December 31, 2002.
10.76(9)	Securities Purchase Agreement by and among Equinix, the Guarantors and the Purchasers, dated as of October 2, 2002.
10.77(9)	Series A-1 Convertible Secured Note Due 2007 issued to i-STT Investments Pte Ltd on December 31, 2002.
10.78(9)	Preferred Stock Warrant issued to i-STT Investments Pte Ltd on December 31, 2002.
10.79(9)	Change in Control Warrant issued to i-STT Investments Pte Ltd on December 31, 2002.
10.80(13)	Series A Cash Trigger Warrant issued to i-STT Investments Pte Ltd on June 5, 2003.
10.81(13)	Series B Cash Trigger Warrant issued to i-STT Investments Pte Ltd on June 5, 2003.
10.82(9)	First Supplemental Indenture between Equinix and State Street Bank and Trust Company of California, N.A., as Trustee, dated as of December 28, 2002.
10.83(11)	Securities Purchase and Admission Agreement, dated April 29, 2003, among Equinix, certain of Equinix's subsidiaries, i-STT Investments Pte Ltd, STT Communications Ltd and affiliates of Crosslink Capital.
10.84(12)	Sublease by and between Electronics for Imaging as Landlord and Equinix Operating Co., Inc. as Tenant dated February 12, 2003.
10.85(13)	Form of Series A-2 Convertible Secured Note Due 2007 issued to entities affiliated with Crosslink Ventures on June 5, 2003.
10.87(13)	Form of Series A-2 Change in Control Warrant issued to entities affiliated with Crosslink Ventures on June 5, 2003

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.88(13)	Form of Series A Cash Trigger Warrant issued to entities affiliated with Crosslink Ventures on June 5, 2003.
10.89(13)	Form of Series B Cash Trigger Warrant issued to entities affiliated with Crosslink Ventures on June 5, 2003.
10.90(13)	Expatriate Agreement with Philip Koen, President and Chief Operating Officer of the Company, dated as of June 24, 2003.
10.92(14)	Renewal of Tenancy Agreements over units #06-01, #06-05/08, #05-05/08, #03-05/08 & #05-01/04 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.93	Amendment to Second Amended and Restated Credit and Guaranty Agreement, dated as of November 18, 2003.
10.94	Fourth Modification to Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated as of November 21, 2003.
10.95+	Sublease Agreement between Sprint Communications Company, L.P. and Equinix Operating Co., Inc. dated October 24, 2003.
10.96	Tenancy Agreement over units #03-01, #03-02, #03-03, #03-04 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.97	Lease Agreement with JMA Robinson Redevelopment, LLC, as successor in interest to Carrier Central L.A., Inc., dated as of November 30, 2003.
16.1(1)	Letter regarding change in certifying accountant.
21.1(9)	Subsidiaries of Equinix.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Accountants.
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(1)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Registration Statement on Form S-4 (Commission File No. 333-93749).
(2)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Registration Statement in Form S-1 (Commission File No. 333-39752).
(3)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
(4)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
(5)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
(6)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
(7)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
(8)	Incorporated herein by reference to Annex A of Equinix's Definitive Proxy Statement filed with the Commission December 12, 2002.
(9)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.

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- (10) Incorporated herein by reference to the exhibit of the same number in the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2002.
- (11) Incorporated herein by reference to exhibit 10.1 in the Registrant's filing on Form 8-K on May 1, 2003.
- (12) Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.
- (13) Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
- (14) Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
- + Confidential treatment has been requested for certain portions which are omitted in the copy of the exhibit electronically filed with the Securities and Exchange Commission. The omitted information has been filed separately with the Securities and Exchange Commission pursuant to Equinix's application for confidential treatment.

(b) Reports on Form 8-K.

On October 27, 2003, the Company filed a Current Report on Form 8-K to file the Company's press release from October 27, 2003, in which the Company reported its 2003 third quarter results.

On October 28, 2003, the Company filed a Current Report on Form 8-K to file an excerpt from the Company's conference call held on October 27, 2003, in which it announced its financial results for the quarter ended September 30, 2003 and reported its EBITDA for that period. The Company attached a reconciliation of EBITDA to GAAP as required by Regulation G.

On November 7, 2003, the Company filed a Current Report on Form 8-K to file certain non-GAAP information that the Company had disclosed in meetings held on November 7, 2003. The Company attached a reconciliation of these non-GAAP metrics to GAAP as required by Regulation G.

On November 18, 2003, the Company filed a Current Report on Form 8-K to file the Company's press release from November 18, 2003, in which the Company announced the pricing of its follow-on equity offering and filed as an exhibit the Underwriting Agreement, dated November 17, 2003, between the Company and Citigroup Global Markets, Inc. and SG Cowen Securities Corporation, as the representatives of the underwriters named therein.

On November 20, 2003, the Company filed a Current Report on Form 8-K to announce that it had completed the follow-on equity offering.

(c) Exhibits.

See (a)(3) above.

(d) Financial Statement Schedule.

See (a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

EQUINIX, INC.
(Registrant)

/s/ PETER F. VAN CAMP

By

Peter F. Van Camp
Chief Executive Officer

March 5, 2004

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Peter F. Van Camp or Renee F. Lanam, or either of them, each with the power of substitution, their attorney-in-fact, to sign any amendments to this Form 10-K (including post-effective amendments), and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or their substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
/s/ PETER F. VAN CAMP _____ Peter F. Van Camp	Chief Executive Officer and Director (Principal Executive Officer)	March 5, 2004
/s/ RENEE F. LANAM _____ Renee F. Lanam	Chief Financial Officer and Secretary (Principal Financial Officer)	March 5, 2004
/s/ KEITH D. TAYLOR _____ Keith D. Taylor	Vice President, Finance (Principal Accounting Officer)	March 5, 2004
/s/ LEE THENG KIAT _____ Lee Theng Kiat	Chairman of the Board	March 5, 2004
/s/ STEVEN POY ENG _____ Steven Poy Eng	Director	March 5, 2004
/s/ GARY HROMADKO _____ Gary Hromadko	Director	March 5, 2004
/s/ SCOTT KRIENS _____ Scott Kriens	Director	March 5, 2004
/s/ JEAN F.H.P. MANDEVILLE _____ Jean F.H.P. Mandeville	Director	March 5, 2004

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <p>/s/ ANDREW S. RACHLEFF Andrew S. Rachleff</p>	Director	March 5, 2004
<hr/> <p>/s/ DENNIS RANEY Dennis Raney</p>	Director	March 5, 2004
<hr/> <p>/s/ MICHELANGELO VOLPI Michelangelo Volpi</p>	Director	March 5, 2004

Report of Independent Auditors

To Board of Directors and
Stockholders of Equinix, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) on page 46 present fairly, in all material respects, the financial position of Equinix, Inc. and its subsidiaries at December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
San Jose, California
March 5, 2004

EQUINIX, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

	December 31,	
	2003	2002
Assets		
Current assets:		
Cash and cash equivalents	\$ 60,428	\$ 41,216
Short-term investments	12,543	—
Accounts receivable, net of allowance for doubtful accounts of \$315 and \$397	10,178	9,152
Current portion of restricted cash	—	1,981
Prepays and other current assets	3,139	11,146
	<u>86,288</u>	<u>63,495</u>
Total current assets	86,288	63,495
Property and equipment, net	343,554	390,048
Restricted cash, less current portion	1,835	2,426
Goodwill	21,228	21,081
Debt issuance costs, net	5,954	7,250
Other assets	5,673	7,703
	<u>464,532</u>	<u>492,003</u>
Total assets	\$ 464,532	\$ 492,003
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 18,052	\$ 20,347
Accrued restructuring charges	828	11,528
Accrued interest payable	1,114	2,311
Current portion of debt facilities and capital lease obligations	2,689	5,591
Current portion of credit facility	12,000	1,981
Other current liabilities	3,843	4,413
	<u>38,526</u>	<u>46,171</u>
Total current liabilities	38,526	46,171
Debt facilities and capital lease obligations, less current portion	723	3,633
Credit facility, less current portion	22,281	89,529
Senior notes	29,220	28,908
Convertible secured notes	31,683	25,354
Deferred rent and other liabilities	22,022	14,214
	<u>144,455</u>	<u>207,809</u>
Total liabilities	144,455	207,809
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.001 par value per share; 100,000,000 shares authorized in 2003 and 2002; 1,868,667 shares issued and outstanding in 2003 and 2002; liquidation value of \$18,298 as of December 31, 2003 and 2002	2	2
Common stock, \$0.001 par value per share; 300,000,000 shares authorized in 2003 and 2002; 15,084,425 and 8,448,683 shares issued and outstanding in 2003 and 2002	15	8
Additional paid-in capital	755,698	638,065
Deferred stock-based compensation	(1,032)	(2,865)
Accumulated other comprehensive income	1,198	617
Accumulated deficit	(435,804)	(351,633)
	<u>320,077</u>	<u>284,194</u>
Total stockholders' equity	320,077	284,194
Total liabilities and stockholders' equity	\$ 464,532	\$ 492,003

See accompanying notes to consolidated financial statements.

EQUINIX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Year ended December 31,		
	2003	2002	2001
Revenues	\$ 117,942	\$ 77,188	\$ 63,414
Costs and operating expenses:			
Cost of revenues	128,121	104,073	94,889
Sales and marketing	19,483	15,247	16,935
General and administrative	34,293	30,659	58,286
Restructuring charges	—	28,885	48,565
Total costs and operating expenses	181,897	178,864	218,675
Loss from operations	(63,955)	(101,676)	(155,261)
Interest income	296	998	10,656
Interest expense	(20,512)	(35,098)	(43,810)
Gain on debt extinguishment	—	114,158	—
Net loss	\$ (84,171)	\$ (21,618)	\$ (188,415)
Net loss per share:			
Basic and diluted	\$ (8.76)	\$ (7.23)	\$ (76.62)
Weighted average shares	9,604	2,990	2,459

See accompanying notes to consolidated financial statements.

EQUINIX, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE THREE YEARS ENDED DECEMBER 31, 2003
(in thousands, except share data)

	Preferred stock		Common stock		Additional paid-in capital	Deferred stock-based compensation	Accumulated other comprehensive income (loss)	Accumulated deficit	Total stockholders' equity
	Shares	Amount	Shares	Amount					
Balances as of December 31, 2000	—	\$ —	2,405,376	\$ 2	\$ 553,145	\$ (38,350)	\$ 1,919	\$ (141,600)	\$ 375,116
Issuance of common stock upon exercise of common stock options	—	—	15,534	—	435	—	—	—	435
Issuance of common stock upon exercise of common stock warrants	—	—	72,882	—	—	—	—	—	—
Issuance of common stock under employee stock purchase plan	—	—	16,427	1	1,483	—	—	—	1,484
Repurchase of unvested common stock	—	—	(7,807)	—	(18)	—	—	—	(18)
Issuance/revaluation of common stock warrants	—	—	—	—	(2,341)	—	—	—	(2,341)
Deferred stock-based compensation, net of forfeitures	—	—	—	—	(8,284)	8,284	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	19,044	—	—	19,044
Comprehensive income (loss):									
Net loss	—	—	—	—	—	—	—	(188,415)	(188,415)
Foreign currency translation loss	—	—	—	—	—	—	(1,873)	—	(1,873)
Unrealized gain on short-term investments	—	—	—	—	—	—	89	—	89
Net comprehensive loss	—	—	—	—	—	—	(1,784)	(188,415)	(190,199)
Balances as of December 31, 2001	—	—	2,502,412	3	544,420	(11,022)	135	(330,015)	203,521
Issuance of common stock upon exercise of common stock options	—	—	12,965	—	112	—	—	—	112
Issuance of common stock upon exercise of common stock warrants	—	—	58,551	—	11	—	—	—	11
Issuance of common stock under employee stock purchase plan	—	—	16,689	—	415	—	—	—	415
Issuance of common stock upon exchange of senior notes	—	—	2,357,001	2	30,831	—	—	—	30,833
Issuance of common and preferred stock upon acquisition of i-STT	1,868,667	2	1,084,686	1	31,184	—	—	—	31,187
Issuance of common stock upon acquisition of Pihana	—	—	2,416,379	2	25,515	—	—	—	25,517
Issuance/revaluation of common and preferred stock warrants	—	—	—	—	6,856	—	—	—	6,856
Deferred stock-based compensation, net of forfeitures	—	—	—	—	(1,279)	1,279	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	6,878	—	—	6,878
Comprehensive income (loss):									
Net loss	—	—	—	—	—	—	—	(21,618)	(21,618)
Foreign currency translation gain	—	—	—	—	—	—	498	—	498
Unrealized loss on short-term investments	—	—	—	—	—	—	(16)	—	(16)
Net comprehensive income (loss)	—	—	—	—	—	—	482	(21,618)	(21,136)
Balances as of December 31, 2002	1,868,667	2	8,448,683	8	638,065	(2,865)	617	(351,633)	284,194
Issuance of common stock upon exercise of common stock options	—	—	383,198	—	1,541	—	—	—	1,541
Issuance of common stock upon exercise of common stock warrants	—	—	536,457	1	10	—	—	—	11
Issuance of common stock under employee stock purchase plan	—	—	191,307	—	569	—	—	—	569
Issuance of common stock from follow-on equity offering	—	—	5,524,780	6	104,437	—	—	—	104,443
Issuance/revaluation of common stock warrants and value of beneficial conversion feature in connection with Crosslink financing	—	—	—	—	10,004	—	—	—	10,004
Deferred stock-based compensation, net of forfeitures	—	—	—	—	1,072	(1,072)	—	—	—
Amortization of stock-based compensation	—	—	—	—	—	2,905	—	—	2,905
Comprehensive income (loss):									
Net loss	—	—	—	—	—	—	—	(84,171)	(84,171)
Foreign currency translation gain	—	—	—	—	—	—	577	—	577
Unrealized gain on short-term investments	—	—	—	—	—	—	4	—	4
Net comprehensive income (loss)	—	—	—	—	—	—	581	(84,171)	(83,590)
Balances as of December 31, 2003	1,868,667	\$ 2	15,084,425	\$ 15	\$ 755,698	\$ (1,032)	\$ 1,198	\$ (435,804)	\$ 320,077

See accompanying notes to consolidated financial statements.

EQUINIX, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2003	2002	2001
Cash flows from operating activities:			
Net loss	\$ (84,171)	\$ (21,618)	\$ (188,415)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and accretion	60,642	54,082	49,645
Amortization of stock-based compensation	2,905	6,878	19,044
Amortization of intangible assets	2,106	—	—
Amortization of debt-related issuance costs and discounts	5,574	4,179	4,294
Non-cash interest on convertible secured notes	4,693	—	—
Amortization of deferred rent	3,174	1,798	2,901
Allowance for doubtful accounts	—	2,329	521
Loss on disposal of assets	186	11	—
Gain on debt extinguishment	—	(114,158)	—
Restructuring charges	—	28,885	48,565
Changes in operating assets and liabilities:			
Accounts receivable	(662)	(2,511)	(2,505)
Prepays and other current assets	6,885	4,290	2,001
Other assets	379	2,604	(1,657)
Accounts payable and accrued expenses	(6,567)	11,126	(2,742)
Accrued restructuring charges	(11,350)	(9,279)	(2,088)
Other current liabilities	(497)	2,374	161
Other liabilities	(563)	1,501	1,421
Net cash used in operating activities	<u>(17,266)</u>	<u>(27,509)</u>	<u>(68,854)</u>
Cash flows from investing activities:			
Purchase of short-term investments	(12,539)	(14,662)	(168,411)
Sales and maturities of short-term investments	—	43,536	172,047
Purchases of property and equipment	(7,750)	(6,508)	(57,791)
Additions to construction in progress	—	—	(44,343)
Accrued construction costs and property and equipment	2,454	(28,708)	(54,693)
Purchase of restricted cash and short-term investments	(50)	(5,090)	(25,020)
Sale of restricted cash and short-term investments	2,265	3,904	25,197
Net cash used in investing activities	<u>(15,620)</u>	<u>(7,528)</u>	<u>(153,014)</u>
Cash flows from financing activities:			
Proceeds from issuance of common stock	106,564	537	1,918
Proceeds from convertible secured notes	10,000	30,000	—
Acquisition of cash from i-STT and Pihana, less acquisition costs	—	29,180	—
Proceeds from issuance of debt facilities and capital lease obligations	—	—	8,004
Repayment of debt facilities and capital lease obligations	(6,074)	(6,118)	(5,559)
Proceeds from credit facility	—	—	150,000
Repayment of credit facility	(57,229)	(13,490)	(45,000)
Repayment of senior notes and debt extinguishment costs	—	(21,291)	—
Repurchase of common stock	—	—	(18)
Debt issuance costs	(973)	(1,894)	(1,546)
Net cash provided by financing activities	<u>52,288</u>	<u>16,924</u>	<u>107,799</u>
Effect of foreign currency exchange rates on cash and cash equivalents	(190)	498	(1,873)
Net increase (decrease) in cash and cash equivalents	19,212	(17,615)	(115,942)
Cash and cash equivalents at beginning of year	41,216	58,831	174,773
Cash and cash equivalents at end of year	<u>\$ 60,428</u>	<u>\$ 41,216</u>	<u>\$ 58,831</u>
Supplemental disclosure of cash flow information:			

Cash paid for taxes	\$ 20	\$ 39	\$ 18
Cash paid for interest	\$ 13,548	\$ 19,948	\$ 38,103

See accompanying notes to consolidated financial statements.

EQUINIX, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Equinix, Inc. (“Equinix” or the “Company”) was incorporated in Delaware on June 22, 1998. Equinix designs, builds, and operates Internet Business Exchange (“IBX”) hubs where Internet businesses place their equipment and their network facilities in order to interconnect with each other to improve Internet performance. The Company’s IBX hubs and Internet exchange services enable network service providers, enterprises, content providers, managed service providers and other Internet infrastructure companies to directly connect with each other for increased performance.

In October 2002, the Company entered into agreements to consummate a series of related acquisition and financing transactions. These transactions closed on December 31, 2002 and, as such, the consolidated balance sheet as of that date includes the net assets acquired. Under the terms of these agreements, the Company combined its business with two similar businesses, which are predominantly based in the Asia-Pacific region, through the acquisition of i-STT Pte Ltd (“i-STT”) and Pihana Pacific, Inc. (“Pihana”) by issuing approximately 3.5 million shares of Equinix common stock and approximately 1.9 million shares of Equinix preferred stock. The Company refers to this transaction as the combination (the “Combination”) (see Note 2). In conjunction with the Combination, the Company issued to i-STT’s former parent company, STT Communications Ltd. (“STT Communications”), a \$30.0 million convertible secured note in exchange for cash. The Company refers to this transaction as the financing (the “Financing”) (see Note 8).

In connection with the Combination and Financing, the Company completed the Senior Note Exchange, whereby the Company amended the terms of the Indenture governing the Senior Notes and extinguished \$116.8 million of Senior Notes in exchange for a combination of common stock and cash. This resulted in the recognition of a substantial gain on debt extinguishment during the fourth quarter of 2002 (see Note 6).

In November 2003, the Company sold 5.5 million shares of its common stock at a purchase price of \$20.00 per share, which resulted in net proceeds to the Company of \$104.4 million. The Company refers to this transaction as the follow-on equity offering (the “Follow-on Equity Offering”) (see Note 9). In addition, in conjunction with the Follow-on Equity Offering, the Company received consent from its senior lenders to amend the terms of its Credit Facility and permanently repaid \$55.2 million of the then outstanding principal balance of \$90.5 million (see Note 7).

In February 2004, the Company sold \$86.3 million in aggregate principal of 2.5% convertible subordinated debentures due 2024 to qualified institutional buyers. The Company used the net proceeds from this offering to repay all amounts outstanding under the Credit Facility, the VLL Loan Amendment and the Heller Loan Amendment (see Note 5). In addition, the Company intends to use additional proceeds received to redeem all remaining Senior Notes. The Company has exercised its right to redeem all of the Senior Notes, which have a total of \$30.5 million of principal outstanding as of December 31, 2003 (reported as \$29.2 million on the balance sheet), and has sent a notice of redemption to the trustee. The effective date of the redemption is expected to be March 12, 2004. All remaining proceeds will be used for general corporate purposes. The Company refers to this transaction as the convertible debenture offering (the “Convertible Debenture Offering”) (see Note 15).

As of December 31, 2003, the Company had \$73.0 million of cash, cash equivalents and short-term investments. The Company believes that this cash, coupled with the remaining proceeds from the Convertible Debenture Offering and anticipated cash flows generated from operations, will be sufficient to meet the Company’s capital expenditure, working capital, debt service and corporate overhead requirements for at least the next 12 months.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock Split

In December 2002, the Company effected a thirty-two-for-one reverse stock split effective December 31, 2002 whereby one share of common stock was exchanged for every thirty-two shares of common stock then outstanding. All share and per share amounts in these financial statements have been retroactively adjusted to give effect to the stock split.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Equinix and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Consolidation

The Company follows the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 94, “Consolidation of All Majority-Owned Subsidiaries” and Emerging Issues Task Force (“EITF”) Abstract No. 96-16, “Investor’s Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights”. As a result, all majority-owned subsidiaries are consolidated unless the Company does not have control. Evidence of such a lack of effective control includes the Company’s inability to direct or cause the direction of the management and policies of a person, whether through the ownership of voting shares, by contract, or otherwise.

As a result of the Combination, the Company acquired a 60% interest in i-STT Nation Limited, an IBX hub operation in Thailand. However, as a result of certain substantive participating rights granted to minority shareholders, i-STT Nation Limited was not considered a controlled subsidiary and accordingly, it was not consolidated. Accordingly, the Company accounted for i-STT Nation Limited as an equity investment using the equity method of accounting. Under the preliminary purchase price allocation, the Company attributed no value to this investment as i-STT Nation Limited was in the early stages of operations and was not able to generate positive operating cashflow for the foreseeable future. During the year ended December 31, 2003, the Company made the decision to wind-down i-STT Nation Limited, entered into a wind-down agreement and liquidated this subsidiary. The costs of wind-down were accounted for as a purchase price adjustment (see Note 2).

Use of Estimates

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

Cash, Cash Equivalents and Short-Term Investments

The Company considers all highly liquid instruments with an original maturity from the date of purchase of three months or less to be cash equivalents. Cash equivalents consist of money market mutual funds and certificates of deposit with financial institutions with maturities up to 90 days. Short-term investments generally consist of certificates of deposits with maturities of between 90 and 180 days and highly liquid debt and equity securities of corporations, municipalities and the U.S. government. Short-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 comprehensive income. The cost of securities sold is based on the specific identification method.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Restricted Cash

Restricted cash as of December 31, 2003, consisted of \$1,346,000, which was used as collateral to support the issuance of four standby letters of credit in lieu of deposits under certain lease agreements with various expiry dates through 2015 and 3,800,000 Hong Kong dollars (approximately \$489,000 as translated using effective exchange rates at December 31, 2003) reserved for placement into an escrow account with a third party as required by a customer agreement in Hong Kong, whereby the customer would be able to draw upon the amount in the case of Equinix's insolvency, as defined in the agreement (the "Hong Kong Customer Escrow Account"). As of December 31, 2003 and through the date of this filing, the Hong Kong Customer Escrow Account has not yet been funded.

Restricted cash as of December 31, 2002, consisted of \$1,981,000 deposited with an escrow agent to pay the current interest payment on the Senior Notes (see Note 6), which was paid in January 2003; \$1,939,000, which was used as collateral to support the issuance of six standby letters of credit in lieu of deposits under certain lease agreements with various expiry dates through 2015; and 3,800,000 Hong Kong dollars (approximately \$487,000 as translated using effective exchange rates at December 31, 2002) in connection with the Hong Kong Customer Escrow Account. During the year ended December 31, 2002, the Company recorded several restructuring charges as part of its effort to exit or amend several unnecessary U.S. IBX expansion and headquarter office space leases. Part of this restructuring charge included the write-off of \$250,000 for a letter of credit related to one of these U.S. leaseholds (see Note 14). In addition, part of this restructuring charge reflected the write-off of \$19,010,000 for letters of credit related to the exercise of the Company's option to elect to permanently exclude approximately 40 acres from the San Jose Ground Lease. The remaining \$5,990,000 in letters of credit associated with the San Jose Ground Lease was reclassified as prepaid rent (see Note 11).

Financial Instruments and Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist of cash, cash equivalents and short-term investments to the extent these exceed federal insurance limits and accounts receivable. Risks associated with cash, cash equivalents and short-term investments are mitigated by the Company's investment policy, which limits the Company's investing to only those marketable securities rated at least A-1 or P-1 investment grade, as determined by independent credit rating agencies.

The Company's customer base has historically been composed primarily of businesses throughout the United States; however, on December 31, 2002, as a result of the Combination (see Note 2), the Company acquired the accounts receivable balances of i-STT and Pihana, and commencing in fiscal 2003, the Company's revenues include revenues from these newly-acquired Asia-Pacific operations. The Company performs ongoing credit evaluations of its customers. As of December 31, 2003, one customer, IBM, accounted for 15% of revenues for that year and 11% of accounts receivable. As of December 31, 2002, one customer, IBM, accounted for 20% of revenues for that year and 15% of accounts receivables. As of December 31, 2001, one customer, IBM, accounted for 15% of revenues for that year and another customer, SiteSmith, accounted for 10% of accounts receivables. No other single customer accounted for greater than 10% of accounts receivables or revenues for the periods presented.

Property and Equipment

Property and equipment are stated at original cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, generally two to five years for non-IBX hub equipment and two to ten years for IBX hub equipment. Leasehold improvements and assets acquired under capital lease are amortized over the shorter of the lease term or the estimated useful life of the asset or improvement, which is generally ten to fifteen years for the leasehold improvements.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Asset Retirement Costs

In June 2001, the FASB approved SFAS No. 143. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. The fair value of a liability for an asset retirement obligation is to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated retirement costs are capitalized and included as part of the carrying value of the long-lived asset and amortized over the useful life of the asset. Subsequent to the initial measurement, the Company is accreting the liability in relation to the asset retirement obligation over time and the accretion expense is being recorded as a cost of revenue. SFAS No. 143 was effective for the Company beginning on January 1, 2003 and the adoption of SFAS No. 143 did not have a material impact on the Company's financial statements.

Construction in Progress

Construction in progress includes direct and indirect expenditures for the construction of IBX hubs and is stated at original cost. The Company has contracted out substantially all of the construction of the IBX hubs to independent contractors under construction contracts. Construction in progress includes certain costs incurred under a construction contract including project management services, site identification and evaluation services, engineering and schematic design services, design development and construction services and other construction-related fees and services. In addition, the Company has capitalized certain interest costs during the construction phase. Once an IBX hub becomes operational, these capitalized costs are transferred to property and equipment and are depreciated at the appropriate rate consistent with the estimated useful life of the underlying asset.

Interest incurred is capitalized in accordance with SFAS No. 34, *Capitalization of Interest Costs*. There was no interest capitalized during the years ended December 31, 2003 and 2002. Total interest cost incurred and total interest capitalized during the year ended December 31, 2001, was \$45,350,000 and \$1,540,000, respectively.

During the quarter ended March 31, 2002, the Company completed construction on its seventh and largest IBX hub, which is located in the New York metropolitan area, and placed it into service. The Company currently has no IBX hubs under construction.

Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 142, "Goodwill and Other Intangible Assets," which is effective for fiscal years beginning after December 15, 2001. SFAS No. 142 provides, among other things, that goodwill should not be amortized after its initial recognition in financial statements. In addition, the standard includes provisions for testing for impairment of existing goodwill and other intangibles. As of January 1, 2002, the Company adopted SFAS No. 142 and recorded goodwill as part of the Combination, which closed on December 31, 2002 (see Note 2). In lieu of amortization, the Company is required to perform an impairment review of its goodwill balance on at least on an annual basis, which the Company performs during the fourth quarter, and upon the initial adoption of SFAS No. 142. This impairment review involves a two-step process as follows:

Step 1—The Company compares the fair value of its reporting units to the carrying value, including goodwill of each of those units. For each reporting unit where the carrying value, including goodwill, exceeds the unit's fair value, the Company moves on to step 2. If a unit's fair value exceeds the carrying value, no further work is performed and no impairment charge is necessary.

Step 2—The Company performs an allocation of the fair value of the reporting unit to its identifiable tangible and non-goodwill intangible assets and liabilities. This derives an implied fair value for the reporting unit's goodwill. The Company then compares the implied fair value of the reporting unit's

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

goodwill with the carrying amount of the reporting unit's goodwill. If the carrying amount of the reporting unit's goodwill is greater than the implied fair value of its goodwill, an impairment charge would be recognized for the excess.

During the three months ended December 31, 2003, the Company performed its annual test for goodwill impairment as required by SFAS No. 142. 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. The Company completed its evaluation with the assistance of a third party consultant and concluded that goodwill was not impaired as the fair value of its Singapore reporting unit exceeded the carrying value of this reporting unit, including goodwill. 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 17%, were determined using the Company's best estimates as of the date of the impairment review.

Goodwill and other intangible assets, net, consisted of the following as of December 31 (in thousands):

	2003	2002
Goodwill	\$21,228	\$ 21,081
Other intangibles:		
Intangible asset—customer contracts	3,927	3,600
Intangible asset—tradename	300	300
Intangible asset—workforce	160	—
	4,387	3,900
Accumulated amortization	(2,106)	—
	2,281	3,900
	\$23,509	\$24,981

Other identifiable intangible assets, comprised of customer contracts, tradename and workforce, are carried at cost, less accumulated amortization, and were acquired as a result of the Combination (see Note 2) and the Santa Clara IBX Acquisition (see Note 3). No amortization was recognized in fiscal 2002 as the Combination was consummated on December 31, 2002 and the Santa Clara IBX Acquisition was consummated on December 1, 2003. Beginning in fiscal 2003, the Company began amortizing these other identifiable intangibles on a straight-line basis over their estimated useful lives, which are two years for customer contracts acquired in the Combination and five years for customer contracts acquired in the Santa Clara IBX Acquisition and one year for both tradename and workforce. Other intangible assets, net, are included in other assets on the accompanying balances sheets as of December 31, 2003 and 2002.

For the year ended December 31, 2003, the Company recorded \$2,106,000 of amortization expense associated with its other intangible assets. Prior to 2003, the Company had not recorded amortization expense. The Company expects to record the following amortization expense during the next five years (in thousands):

Year ending:	
2004	\$ 2,046
2005	60
2006	60
2007	60
2008	55
Total	\$2,281

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Fair Value of Financial Instruments

The carrying value amounts of the Company's financial instruments, which include cash equivalents, short-term investments, accounts receivable, accounts payable, accrued expenses and long-term obligations approximate their fair value due to either the short-term maturity or the prevailing interest rates of the related instruments. The fair value of the Company's Senior Notes is based on quoted market prices. The estimated fair value of the Senior Notes was approximately \$24.4 million and \$4.6 million as of December 31, 2003 and 2002, respectively. During fiscal 2002, the Company retired approximately \$169.5 million of Senior Notes (see Note 6). In February 2004, the Company exercised its right to redeem all of the Senior Notes, which have a total of \$30.5 million of principal outstanding as of December 31, 2003, and have sent a notice of redemption to the trustee. The effective date of the redemption is expected to be March 12, 2004. The redemption price for the Senior Notes will be equal to 106.5% of their principal amount plus accrued and unpaid interest to the redemption date (see Note 15).

Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed Of

The Company accounts for impairment of long-lived assets in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which the Company adopted in fiscal 2002. SFAS No. 144 establishes a uniform accounting model for long-lived assets to be disposed of. SFAS No. 144 also requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset to estimated undiscounted future net cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During the quarter ended June 30, 2002, the Company wrote-down the value of some property and equipment, primarily leasehold improvements and some equipment, located in two unnecessary U.S. IBX expansion and headquarter office space operating leaseholds that the Company decided to exit and that do not currently provide any ongoing benefit (see Note 14).

In light of a number of factors, including the continued difficulty in the economy and the Company's significant losses to date, an impairment assessment was undertaken of the Company's IBX hubs as of December 31, 2002. This assessment involved an assessment of the future net cash flows generated by each IBX hub over their respectful useful lives and comparing this against the carrying value of that IBX hub. The revenue and cost assumptions used in this analysis were based on numerous factors, including the current revenue and cost performance of each IBX hub, historical growth rates, the remaining space to fill each IBX hub to full capacity relative to the market demand in each of the individual geographic markets of each IBX hub, expected inflation rates and any other available economic indicators and factors that the Company believed were relevant. This analysis showed that the total of the undiscounted future cash flows was greater than the carrying amount of the assets, and accordingly, no impairment was deemed to have occurred. Significant judgments and assumptions were required in the forecast of future operating results used in the preparation of the estimated future cash flows, including profit margins, customer growth and the timing of overall market growth and the Company's percentage of that market. The Company reviewed this analysis as of December 31, 2003, and noted that the Company had generally performed better in all significant aspects compared to the projections used in the prior year and that no impairment indicators or triggering events were present. As a result, no further impairment analysis was performed; however, if future results do not match these estimates, revised future forecasts could result in a material adverse effect on the assessment of the Company's long-lived assets, thereby requiring the Company to write down the assets.

Prior to adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of."

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During the quarter ended September 30, 2001, the Company wrote-down the value of its European construction in progress to its net realizable value as part of a larger restructuring charge in conjunction with a revised European services strategy (see Note 14).

Revenue Recognition

Equinix derives more than 90% of its revenues from recurring revenue streams, consisting primarily of (1) colocation services, such as from the licensing of cabinet space, power and bandwidth; (2) interconnection services, such as cross connects and Gigabit Ethernet ports and (3) managed infrastructure services, such as Equinix Direct and other e-business services such as mail service and managed platform solutions. The remainder of the Company's revenues are from non-recurring revenue streams, such as from the recognized portion of deferred installation revenues, professional services, contract settlements and equipment sales. Revenues from recurring revenue streams are billed monthly and recognized ratably over the term of the contract, generally one to three years. Fees for the provision of e-business services are recognized progressively as the services are rendered in accordance with the contract terms, except where the future costs cannot be estimated reliably, in which case fees are recognized upon the completion of services. Non-recurring installation fees are deferred and recognized ratably over the term of the related contract. Professional service fees are recognized in the period in which the services were provided and represent the culmination of the earnings process. Revenue from bandwidth and equipment is recognized on a gross basis in accordance with EITF Abstract No. 99-19, "Recording Revenue as a Principal versus Net as an Agent", primarily because the Company acts as the principal in the transaction, takes title to products and services and bears inventory and credit risk. Revenue from contract settlements is recognized on a cash basis when no remaining performance obligations exist to the extent that the revenue has not previously been recognized.

The Company generally 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 not been significant.

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. 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 does not request collateral from our customers. If the Company determines that collection of a fee is not reasonably assured, the Company defers the fee and recognizes revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash. In addition, Equinix also maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required payments for those customers that the Company had expected to collect the revenues. If the financial condition of Equinix's customers were to deteriorate or if they become insolvent, resulting in an impairment of their ability to make payments, allowances for doubtful accounts may be required. Management specifically analyzes accounts receivable and analyzes 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.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years 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 tax assets to the amounts expected to be realized.

Stock-Based Compensation

The Company accounts for its stock-based compensation plans in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation." As permitted under SFAS No. 123, the Company uses the intrinsic value-based method of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," to account for its employee stock-based compensation plans. Under APB Opinion No. 25, compensation expense is based on the difference, if any, on the date of grant, between the fair value of the Company's shares and the exercise price of the option.

The Company accounts for stock-based compensation arrangements with nonemployees in accordance with the Emerging Issues Task Force ("EITF") Abstract No. 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Accordingly, unvested options and warrants held by nonemployees are subject to revaluation at each balance sheet date based on the then current fair market value.

Unearned deferred compensation resulting from employee and nonemployee option grants is amortized on an accelerated basis over the vesting period of the individual options, in accordance with FASB Interpretation No. 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans" ("FASB Interpretation No. 28").

Primarily as a result of employee stock options being granted at exercise prices below fair market value prior to the Company's initial public offering ("IPO") in August 2000, the Company recorded a deferred stock-based compensation charge on its balance sheet of \$54,537,000 in 2000, which is being amortized over the four-year vesting life of these individual stock options net of the reversal of any previously recorded accelerated stock-based compensation expense due to the forfeitures of those stock options prior to vesting. In addition, in September 2003, the Compensation Committee of the Board of Directors awarded a stock option grant to the Company's chief executive officer at a 15% discount to the then fair market value of the Company's common stock on the date of grant and, as a result, recorded a \$1,093,000 deferred stock-based compensation charge, which will be amortized over the three-year vesting period of this grant. As of December 31, 2003, there was \$1,032,000 of deferred stock-based compensation remaining to be amortized as a result of these option grants. The Company expects stock-based compensation expense to impact its results of operations through 2006.

The following table presents, by operating expense, the Company's amortization of stock-based compensation expense (in thousands):

	2003	2002	2001
Cost of revenues	\$ 59	\$ 266	\$ 426
Sales and marketing	294	952	2,830
General and administrative	2,552	5,660	15,788
	<u>\$2,905</u>	<u>\$6,878</u>	<u>\$19,044</u>

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company has adopted the disclosure requirements of SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—An Amendment of SFAS No. 123". The following table presents what the net loss and net loss per share would have been had the Company adopted SFAS No. 123 (in thousands, except per share data):

	2003	2002	2001
Net loss as reported	\$ (84,171)	\$ (21,618)	\$ (188,415)
Stock-based compensation expense included in net loss	2,818	6,859	18,993
Stock-based compensation expense if SFAS No.123 had been adopted	(10,238)	(12,866)	(27,574)
Pro forma net loss	\$ (91,591)	\$ (27,625)	\$ (196,996)
Basic and diluted net loss per share:			
As reported	\$ (8.76)	\$ (7.23)	\$ (76.62)
Pro forma	(9.54)	(9.24)	(80.11)

The Company's fair value calculations for employee grants were made using the Black-Scholes option pricing model with the following weighted average assumptions for the years ended December 31:

	2003	2002	2001
Dividend yield	0%	0%	0%
Expected volatility	110%	135%	80%
Risk-free interest rate	2.24%	3.75%	3.94%
Expected life (in years)	3.50	3.50	3.04

The Company's fair value calculations for employee's stock purchase rights under the Purchase Plan (see Note 9) were made using the Black-Scholes option pricing model with weighted average assumptions consistent with those used for employee grants as indicated above; however, the assumption for expected life (in years) used for the Purchase Plan was 2 years for all periods presented.

Comprehensive Income

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances excluding transactions resulting from investments by owners and distributions to owners. The primary difference between net income (loss) and comprehensive income (loss) for Equinix results from foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities.

The financial position of foreign subsidiaries is translated using the exchange rates in effect at the end of the period, while income and expense items are translated at average rates of exchange during the period. Gains or losses from translation of foreign operations where the local currency is the functional currency are included as other comprehensive income or loss. The net gains and losses resulting from foreign currency transactions are recorded in net income (loss) in the period incurred and were not significant for any of the periods presented. Certain inter-company balances are designated as long term. Accordingly, exchange gains and losses associated with these long-term inter-company balances are recorded as a component of other comprehensive income (loss), along with translation adjustments.

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

Net Loss Per Share

The Company computes net loss per share in accordance with SFAS No. 128, “Earnings per Share,” and SEC Staff Accounting Bulletin (“SAB”) No. 98. Under the provisions of SFAS No. 128 and SAB No. 98 basic and diluted net loss per share are computed using the weighted average number of common shares outstanding. Options, warrants and preferred stock were not included in the computation of diluted net loss per share because the effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted net loss per share for the years ended December 31 (in thousands, except per share amounts).

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Numerator:			
Net loss	\$(84,171)	\$(21,618)	\$(188,415)
Denominator:			
Weighted average shares	9,606	3,015	2,547
Weighted average unvested shares subject to repurchase	(2)	(25)	(88)
Total weighted average shares	9,604	2,990	2,459
Net loss per share:			
Basic and diluted	\$ (8.76)	\$ (7.23)	\$ (76.62)

The following table sets forth potential shares of common stock that are not included in the diluted net loss per share calculation above because to do so would be anti-dilutive for December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Series A preferred stock	1,868,667	1,868,667	—
Series A preferred stock warrant	965,674	965,674	—
Shares reserved for conversion of convertible secured notes	6,160,765	2,785,205	—
Common stock warrants	245,835	269,586	65,831
Common stock options	3,407,938	725,821	653,160
Common stock subject to repurchase	150	6,986	50,333

Derivatives and Hedging Activities

The Company adopted SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended, at the beginning of its fiscal year 2001. The standard requires the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through the statement of operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income (loss) until the hedged item is recognized in earnings. The ineffective portion of a derivative’s change in fair value will be immediately recognized in earnings. As of December 31, 2003, the Company had not entered into any derivative or hedging activities.

Recent Accounting Pronouncements

In November 2002, the EITF reached a consensus on Issue No. 00-21, “Revenue Arrangements with Multiple Deliverables” (“EITF 00-21”). EITF 00-21 provides guidance on how to account for arrangements that

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company adopted the provisions of EITF 00-21 during the third quarter of 2003. The adoption of this statement has not had a material impact on the Company's results of operations, financial position or cash flows.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN 46 is effective immediately for all new variable interest entities created or acquired after January 31, 2003. In December 2003, the FASB released a revised version of FIN 46 clarifying certain aspects of FIN 46 and providing certain entities with exemptions from the requirements of FIN 46. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN 46 must be applied for the first interim or annual period ending after March 15, 2004. The adoption of FIN 46 did not have a material impact on the Company's results of operations, financial position or cash flows.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. The new guidance amends SFAS No. 133 for decisions made as part of the Derivatives Implementation Group ("DIG") process that effectively required amendments to SFAS No. 133, and decisions made in connection with other FASB projects dealing with financial instruments and in connection with implementation issues raised in relation to the application of the definition of a derivative and characteristics of a derivative that contains financing components. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. The Company adopted the provisions of SFAS No. 149 during the third quarter of 2003. The adoption of this statement has not had a material impact on the Company's results of operations, financial position or cash flows.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". SFAS No. 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances) because that financial instrument embodies an obligation of the issuer. In November 2003, the FASB issued FASB Staff Position No. FASB 150-3 which deferred the measurement provisions of SFAS No. 150 indefinitely for certain mandatorily redeemable non-controlling interests that were issued before November 5, 2003. The FASB plans to reconsider implementation issues and, perhaps, classification or measurement guidance for those non-controlling interests during the deferral period. In 2003, the Company applied certain disclosure requirements of SFAS No. 150. To date, the impact of the effective provisions of SFAS No. 150 have not had a material impact on the Company's results of operations, financial position or cash flows. While the effective date of certain elements of SFAS No. 150 have been deferred, the adoption of SFAS No. 150 when finalized is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. The Combination**Acquisition of i-STT**

On December 31, 2002, a wholly-owned subsidiary of the Company acquired all issued and outstanding shares of i-STT from STT Communications (the “i-STT Acquisition”). i-STT is a similar business to that of Equinix with IBX hub operations in Singapore and Thailand. The entire purchase price of \$34,365,000 was comprised of (i) 1,868,667 shares of the Company’s Series A preferred stock and 1,084,686 shares of the Company’s common stock, with a total value of \$31,187,000 and (ii) total cash consideration and direct transaction costs of \$3,178,000.

The fair value of the Company’s stock issued was determined using the five-trading-day average price of the Company’s common stock surrounding the date the transaction was announced in October 2002. The Company determined that the fair value of the Series A preferred stock and the common stock was the same because the material rights, preferences and privileges of Series A preferred stock and the common stock were virtually identical (see Note 9).

The initial purchase price, including direct merger costs, was allocated to the net tangible and intangible assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. The Company retained the services of an independent valuation expert to assist with the determination of the fair value of the intangible assets. Included in the net liabilities assumed as of December 31, 2002, was an accrual of \$400,000 representing the estimated costs to exit from an undeveloped IBX hub leasehold interest in Shanghai, China. The Company completed the exit of this lease during the second quarter of 2003. During the quarter ended March 31, 2003, the Company recorded an adjustment to increase the goodwill acquired in the i-STT Acquisition by \$650,000 as a result of the decision to wind-down the joint venture in Thailand, i-STT Nation Limited. The Company estimated that its share of the costs to shut down the joint venture would not exceed \$650,000. The Company completed these wind-down efforts during the second half of 2003. The costs of both exiting the Shanghai leasehold and winding down the joint venture in Thailand were less than expected, and as a result, the Company recorded an adjustment to reduce the remaining accruals for these efforts totaling \$446,000, which decreased the goodwill balance acquired in the i-STT Acquisition. Over the course of 2003, the Company recorded several adjustments to the provisional purchase price allocation following the resolution of certain contingencies, including the Shanghai lease termination and Thailand wind-down activities discussed above, totaling \$348,000, which decreased the goodwill balance acquired in the i-STT Acquisition. The fair value of the assets and liabilities assumed, inclusive of all purchase price adjustments, is summarized as follows (in thousands):

Cash and cash equivalents	\$ 1,699
Accounts receivable	1,673
Other current assets	197
Property and equipment	10,455
Intangible asset—customer contracts	3,600
Intangible asset—tradename	300
Intangible asset—goodwill	20,733
Other assets	550
Total assets acquired	39,207
Accounts payable and accrued expenses	(4,048)
Accrued restructuring charges	(604)
Other current liabilities	(190)
Net assets acquired	\$ 34,365

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company accounted for the i-STT Acquisition using the purchase method. The customer contracts intangible asset has a useful life of two years, the typical term of a customer contract, and the tradename intangible asset had a useful life of one year, the contractual period under the Combination Agreement.

Acquisition of Pihana

On December 31, 2002, a wholly-owned subsidiary of the Company merged with and into Pihana (the “Pihana Acquisition”). Pihana is a similar business to that of Equinix with IBX hub operations in Singapore; Tokyo, Japan; Sydney, Australia; Hong Kong, China, as well as Los Angeles and Honolulu in the U.S. The entire purchase price of \$28,376,000 was comprised of (i) 2,416,379 shares of the Company’s common stock, with a total value of \$25,517,000, (ii) total cash consideration and direct transaction costs of \$2,683,000 and (iii) the value of Pihana shareholder warrants assumed in the Pihana Acquisition of \$176,000 (the “Pihana Shareholder Warrants”). The fair market value of the Company’s stock issued was determined using the five-trading-day average price of the Company’s common stock surrounding the date the transaction was announced in October 2002. The fair value of the Pihana Shareholder Warrants, which represent the right to purchase 133,442 shares of the Company’s common stock at an exercise price of \$191.81 per share, was determined using the Black-Scholes option-pricing model and the following assumptions: fair market value per share of \$5.70, dividend yield of 0%, expected volatility of 135%, risk-free interest rate of 4% and a contractual life of approximately 3 years.

The initial purchase price, including direct merger costs, was allocated to assets acquired and liabilities assumed based on their estimated fair value at the date of acquisition. Included in the net liabilities assumed as of December 31, 2002, were total restructuring charges of \$9,470,000, which related primarily to the exit of the undeveloped portion of the Pihana Los Angeles IBX hub leasehold, severance related to an approximate 30% reduction in workforce, including several officers of Pihana and some transaction-related professional fees. A substantial portion of these costs were paid during 2003. Prior to December 31, 2002, Pihana sold their Korean IBX hub operations, which was excluded from the Pihana Acquisition, terminated or amended several operating leaseholds and recorded a substantial impairment charge against the value of their property and equipment assumed in the Pihana Acquisition. During the fourth quarter of 2003, the Company recorded several adjustments to the provisional purchase price allocation following the resolution of certain contingencies totaling \$1,184,000, which increased the property and equipment balance assumed in the Pihana Acquisition. The fair value of the assets and liabilities assumed, inclusive of all purchase price adjustments, is summarized as follows (in thousands):

Cash and cash equivalents	\$ 33,341
Accounts receivable	754
Other current assets	651
Property and equipment	6,875
Restricted cash	927
Other assets	2,329
Total assets acquired	44,877
Accounts payable and accrued expenses	(3,294)
Accrued restructuring charges and transaction fees	(9,693)
Other current liabilities	(42)
Capital lease obligations	(1,536)
Other liabilities	(1,936)
Net assets acquired	\$28,376

The Company accounted for the Pihana Acquisition using the purchase method.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Acquired Restructuring Accruals

As a result of the Combination, the Company acquired several accruals related to restructuring activities from both i-STT and Pihana, which were commenced in 2002, but the majority of which were not completed until 2003. A summary of the changes in accrued restructuring charge from December 31, 2002 to December 31, 2003 is outlined as follows (in thousands):

	Acquired restructuring accruals as of December 31, 2002	Purchase price adjustments	Cash payments	Acquired restructuring accruals as of December 31, 2003
Workforce reduction and related costs	\$ 5,712	\$ —	\$ (5,494)	\$ 218
Lease exit and office shutdown costs	1,735	(314)	(1,031)	390
Other professional fees	2,423	—	(2,423)	—
Thailand joint venture wind-down	—	518	(518)	—
	<u>\$ 9,870</u>	<u>\$ 204</u>	<u>\$ (9,466)</u>	<u>\$ 608</u>

During the first quarter of 2003, the Company recorded a liability of \$650,000 as a result of the decision to wind-down the joint venture in Thailand, i-STT Nation Limited, which was recorded as an adjustment to the goodwill acquired in the i-STT Acquisition. The Company completed this effort during the second half of 2003. During the fourth quarter of 2003, the Company recorded several purchase price adjustments, which had a total impact to the acquired restructuring accruals totaling \$446,000, primarily related to the joint venture wind-down effort in Thailand as well as the efforts to exit from a leasehold in Shanghai, China, as the actual costs to complete these activities were less than anticipated. One of these adjustments resulted in reducing the \$650,000 accrual that the Company had recorded during the quarter ended March 31, 2003, for Thailand joint venture wind-down costs, to \$518,000. The net impact of all purchase accounting adjustments to the acquired restructuring accruals for the year ended December 31, 2003, was \$204,000.

The remaining activities will be paid during 2004.

Unaudited Pro Forma Consolidated Combined Results

The operating results of i-STT and Pihana included in the Company's consolidated statements of operations and cash flows commencing on December 31, 2002 were immaterial to the consolidated results of the Company. The following unaudited pro forma financial information presents the consolidated results of the Company as if the i-STT Acquisition and Pihana Acquisition had occurred as of January 1, 2001, and includes adjustments to exclude the Korean operations not acquired in the Pihana Acquisition. This pro forma financial information does not necessarily reflect the results of operations as they would have been if the Company had acquired these entities as of January 1, 2001. Unaudited pro forma consolidated results of operations for the years ended December 31, 2002 and 2001 are as follows (in thousands, except per share data):

	2002	2001
Revenues	\$ 93,150	\$ 75,581
Net loss	(69,351)	(250,029)
Basis and diluted net loss per share	(10.68)	(41.95)

These unaudited pro forma results do not include the effects of the the Senior Note Exchange (see Note 6) or Financing (see Note 8).

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Santa Clara IBX Acquisition

In December 2003, the Company closed a definitive agreement to sublease an already constructed data center in Santa Clara, California, and acquire certain related assets from Sprint Communications Company, L.P. (“Sprint”). The 160,000 square foot data center became the Company’s 14th IBX hub, expanding its global footprint to over 1.2 million square feet in eleven markets. The Company refers to this transaction as the Santa Clara IBX acquisition (the “Santa Clara IBX Acquisition”).

As a result of the Santa Clara IBX Acquisition, the Company recorded the following assets and liabilities as of December 1, 2003 (in thousands):

Property and equipment	\$3,980
Intangible asset—customer contracts	300
Intangible asset—workforce	160
	<hr/>
Total assets acquired	\$ 4,440
	<hr/>
Use tax payable	\$ 317
Asset retirement obligation	63
Unfavorable lease obligation	4,060
	<hr/>
Total liabilities acquired	\$ 4,440
	<hr/>

The sublease with Sprint, which expires in 2014, has payment terms which based on the findings of an independent valuation appraisal were at a premium to prevailing market rates for similar properties at the time of the Santa Clara IBX Acquisition. As a result, the Company recorded an unfavorable lease liability of \$4,060,000, which will be amortized into rent expense over the term of this sublease. In addition, the Company recorded both a use tax and asset retirement obligation liability in connection with this property.

Pursuant to the terms of the sublease agreement with Sprint, the Company obtained title to certain fixed assets contained within this IBX hub, which had a total deemed fair value of \$3,980,000. Concurrent with the negotiations with Sprint to sublease the property and take over the operations of this IBX hub, the Company also negotiated with the various customers already located within this IBX hub and entered into new contracts with the key customers. The Company also hired a number of Sprint employees that were working within this IBX hub. The customer contracts intangible asset has a useful life of five years, the term of the primary key customer contract, and the workforce intangible asset has a useful life of one year.

4. Balance Sheet Components**Cash, Cash Equivalents and Short-term Investments**

Cash, cash equivalents and short-term investments consisted of the following as of December 31 (in thousands):

	2003	2002
	<hr/>	<hr/>
Money market	\$ 9,254	\$ 41,216
U.S. government and agency obligations	4,043	—
Corporate bonds	22,615	—
Auction rate securities	33,559	—
Other securities	3,500	—
	<hr/>	<hr/>
Total available-for-sale securities	72,971	41,216
Less amounts classified as cash and cash equivalents	(60,428)	(41,216)
	<hr/>	<hr/>
Total market value of short-term investments	\$ 12,543	\$ —
	<hr/>	<hr/>

EQUINIX, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

The original maturities of all short-term investments were less than one year as of December 31, 2003. The Company had no short-term investments as of December 31, 2002. As of December 31, 2003 and 2002, unrealized gains and losses were a gain of \$4,000 as of December 31, 2003 and zero as of December 31, 2002. As of December 31, 2003 and 2002, cash equivalents included investments in other securities with various contractual maturity dates that do not exceed 90 days. Gross realized gains and losses from the sale of securities classified as available-for-sale were not material for the years ended December 31, 2003, 2002 and 2001. For the purpose of determining gross realized gains and losses, the cost of securities is based upon specific identification.

Accounts Receivable

Accounts receivable, net, consists of the following as of December 31 (in thousands):

	<u>2003</u>	<u>2002</u>
Accounts receivable	\$19,164	\$16,017
Unearned revenue	(8,671)	(6,468)
Allowance for doubtful accounts	(315)	(397)
	<u>\$ 10,178</u>	<u>\$ 9,152</u>

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.

Additions to the allowance for doubtful accounts were approximately zero, \$2,329,000 and \$521,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Charges against the allowance were approximately \$82,000, \$2,313,000, and \$748,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Prepays and Other Current Assets

Prepays and other current assets consist of the following as of December 31 (in thousands):

	<u>2003</u>	<u>2002</u>
Prepaid rent	\$ —	\$ 4,913
Prepaid insurance	1,076	1,507
Prepaid other	906	1,142
Taxes receivable	948	2,391
Other current assets	209	1,193
	<u>\$ 3,139</u>	<u>\$ 11,146</u>

Prepaid rent as of December 31, 2002, represented the fair value of lease costs for the San Jose Ground Lease for the 12-month period ending December 31, 2003 (see Note 11).

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

Property and Equipment

Property and equipment is comprised of the following as of December 31 (in thousands):

	2003	2002
Leasehold improvements	\$ 383,574	\$ 384,334
IBX plant and machinery	64,557	61,761
Computer equipment and software	18,875	17,580
IBX equipment	40,023	33,677
Furniture and fixtures	1,979	2,522
	<u>509,008</u>	<u>499,716</u>
Less accumulated depreciation	(165,454)	(109,826)
	<u>\$ 343,554</u>	<u>\$ 390,048</u>

Leasehold improvements, certain computer equipment, software and furniture and fixtures recorded under capital leases aggregated zero and \$5,779,000 as of December 31, 2003 and 2002, respectively. Amortization on the assets recorded under capital leases was included in depreciation expense. In June 2003, the Company entered into an early termination agreement with Comdisco and settled its remaining capital lease obligations with Comdisco and obtained title to all leased assets under the original agreement (see Note 5).

Included within leasehold improvements is the value attributed to the earned portion of several warrants issued to certain fiber carriers and the Company's contractor totaling \$9,883,000 at both December 31, 2003 and December 31, 2002. Amortization of such warrants is included in depreciation expense.

During the quarter ended March 31, 2003, the Company moved into its new corporate headquarter office in Foster City, California, from Mountain View, California, and as a result, disposed of approximately \$4,569,000 of fully depreciated property and equipment, primarily leasehold improvements and furniture and fixtures.

Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consisted of the following as of December 31 (in thousands):

	2003	2002
Accounts payable	\$ 3,833	\$ 7,243
Accrued merger and financing costs	—	4,488
Accrued compensation and benefits	3,655	2,548
Accrued taxes	2,539	690
Accrued property and equipment	2,454	1,304
Accrued utility and security	2,017	771
Accrued professional fees	1,281	1,046
Accrued other	2,273	2,257
	<u>\$18,052</u>	<u>\$20,347</u>

Accrued merger and financing costs as of December 31, 2002, represented costs associated with the Combination (see Note 2), Financing (see Note 8) and Senior Note Exchange (see Note 6) and have been fully paid during 2003.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred Rent and Other Liabilities

Deferred rent and other liabilities consists of the following as of December 31 (in thousands):

	2003	2002
Deferred rent	\$ 19,889	\$ 13,420
Other liabilities	2,133	794
	<u>\$ 22,022</u>	<u>\$ 14,214</u>

The Company leases its IBX hubs and certain equipment under noncancelable operating lease agreements expiring through 2020. 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 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.

5. Debt Facilities and Capital Lease Obligations

Debt facilities and capital lease obligations consisted of the following as of December 31 (in thousands):

	2003	2002
Comdisco Master Lease Agreement and Addendum (net of unamortized discount of zero and \$31 as of December 31, 2003 and 2002, respectively)	\$ —	\$ 1,820
VLL Loan Amendment (net of unamortized discount of \$112 and \$336 as of December 31, 2003 and 2002, respectively)	735	1,004
Heller Loan Amendment (net of unamortized discount of \$3 and \$9 as of December 31, 2003 and 2002, respectively)	2,476	3,233
Wells Fargo Loan	—	1,631
Orix Equipment Leases	201	1,536
	<u>3,412</u>	<u>9,224</u>
Less current portion	<u>(2,689)</u>	<u>(5,591)</u>
	<u>\$ 723</u>	<u>\$ 3,633</u>

Comdisco Master Lease Agreement and Addendum

In May 1999, the Company entered into a Master Lease Agreement with Comdisco (the "Comdisco Master Lease Agreement"). Under the terms of the Comdisco Master Lease Agreement, the Company sold equipment to Comdisco, which it then leased back. The amount of financing to be provided was up to \$1,000,000, and this amount was fully drawn down during 1999 and 2000. Repayments were made monthly over 42 months with a final balloon interest payment equal to 15% of the balance amount due at maturity. Interest accrued at 7.5% per annum. The Comdisco Master Lease Agreement had an effective interest rate of 14.6% per annum.

In June 2003, the Company entered into an early termination agreement with Comdisco (the "Comdisco Early Termination Agreement"). Pursuant to the terms of the Comdisco Early Termination Agreement, upon receiving the proceeds from the Crosslink Financing (see below), the Company paid Comdisco \$1,867,000 in full satisfaction of all amounts owed to Comdisco, including the \$1,851,000 in principal recorded within both the current and non-current portions of debt facilities and capital lease obligations on the Company's accompanying balance sheet as of December 31, 2002. As part of the Comdisco Early Termination Agreement, the Company obtained title to all leased assets under the original Comdisco Master Lease Agreement and Addendum.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Venture Leasing Loan Agreement and VLL Loan Amendment

In August 1999, the Company entered into a Loan Agreement with Venture Lending & Leasing II, Inc. and other lenders (“VLL” and the “Venture Leasing Loan Agreement”). The Venture Leasing Loan Agreement provided financing for equipment and tenant improvements at the Newark, New Jersey IBX hub and a secured term loan facility for general working capital purposes. The amount of financing provided was up to \$10,000,000, which was allowed to be used to finance up to 85% of the projected cost of tenant improvements and equipment for the Newark IBX hub. The full \$10,000,000 was fully drawn during 1999. Notes issued bore interest at a rate of 8.5% per annum and were repayable in 42 monthly installments plus a final balloon interest payment equal to 15% of the original advance amount due at maturity and are collateralized by the assets of the Newark, New Jersey IBX. The Venture Leasing Loan Agreement had an effective interest rate of 14.7% per annum.

In connection with the Venture Leasing Loan Agreement, the Company granted VLL warrants to purchase 9,375 shares of the Company’s common stock at \$96.00 per share (the “VLL Warrants”). These warrants were immediately exercisable and expired on June 30, 2006. The fair value of the warrant using the Black-Scholes option pricing model with the following assumptions: deemed fair market value per share of \$153.60, dividend yield 0%, expected volatility of 80%, risk-free interest rate of 5.0% and a contractual life of seven years, was \$1,174,000. Such amount was recorded as a discount to the applicable debt, and is being amortized to interest expense, using the effective interest method, over the life of the agreement.

In October 2002, the Company amended the Venture Leasing Loan Agreement to secure certain short-term cash deferral benefits (the “VLL Loan Amendment”). Under the original terms of the Venture Leasing Loan Agreement, the Company borrowed \$10,000,000 which was repayable over 42 months at 8.5% per annum plus a 15% balloon interest payment calculated on the original advance amount. Under the terms of the VLL Loan Amendment, the Company extended the maturity of the loan by 24 months. Commencing January 1, 2003, the Company re-amortized the remaining principal balance and related balloon interest payment over the amended 27-month period ending March 1, 2005. The VLL Loan Amendment has an effective interest rate of approximately 14.7% per annum. As of December 31, 2003, \$847,000 was outstanding under the VLL Loan Amendment.

In connection with the VLL Loan Amendment, the Company granted VLL warrants to purchase 32,187 shares of the Company’s common stock at \$0.32 per share (the “VLL Loan Amendment Warrants”) and repriced the original remaining VLL Warrants, issued in August 1999, to have an exercise price of \$0.32 versus the original \$96.00 per share (the “Amended and Restated Original VLL Warrants”). Both the VLL Loan Amendment Warrants and the Amended and Restated Original VLL Warrants are immediately exercisable and the VLL Loan Amendment Warrants expire on October 11, 2007 and the Amended and Restated Original VLL Warrants expire on the original expiration date of June 30, 2006. The fair value of the VLL Loan Amendment Warrants using the Black-Scholes option-pricing model was approximately \$220,000 with the following assumptions: fair market value per share of \$7.04, dividend yield of 0%, expected volatility of 100%, risk-free interest rate of 4.0% and a contractual life of five years. Such amount was recorded as a discount to the applicable debt based upon the guidance of APB Opinion No. 14 and will be amortized to interest expense, using the effective interest method, over the remaining life of the VLL Loan Amendment. Following the modification of the Amended and Restated Original VLL Warrants, an additional charge of approximately \$45,000 was recorded as an additional debt discount representing the difference between the fair value of the modified option determined in accordance with the provisions of SFAS No. 123 and the value of the old warrants immediately before its terms were modified.

In March 2004, with the proceeds from the Convertible Debenture Offering, the Company will pay off all amounts outstanding under the VLL Loan Amendment (see Note 15).

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Heller Loan and Heller Loan Amendment

In June 2001, the Company obtained a \$5,000,000 loan from Heller Financial Leasing, Inc. (the “Heller Loan”), which was fully drawn down at that time. Repayments on the Heller Loan were made over 36 months and interest accrued at 13.0% per annum. The Heller Loan is secured by certain equipment located in the New York metropolitan area IBX hub.

In connection with the Heller Loan, the Company granted Heller Financial Leasing, Inc. a warrant to purchase 1,171 shares of the Company’s common stock at \$128.00 per share (the “Heller Warrant”). This warrant is immediately exercisable and expires in five years from the date of grant. The fair value of the warrant using the Black-Scholes option pricing model was \$18,000 with the following assumptions: fair market value per share of \$36.16, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 5% and a contractual life of five years. Such amount was recorded as a discount to the applicable loan amount, and is being amortized to interest expense using the effective interest method, over the life of the loan.

In August 2002, the Company amended the Heller Loan to secure certain short-term cash deferment benefits (the “Heller Loan Amendment”). Under the terms of the Heller Loan Amendment, the Company extended the maturity of the loan by nine months. Commencing September 2002, the Company began to benefit from the reduction in monthly payments over the following 14 months thereby deferring approximately \$1,200,000 of principal payments. Commencing November 2003, the deferred principal payments began to be repaid over the remaining 17 months of the loan ending March 2005. The Heller Loan Amendment has an effective interest rate of approximately 16.5% per annum. As of December 31, 2003, \$2,479,000 was outstanding under the Heller Loan Amendment.

In February 2004, with the proceeds from the Convertible Debenture Offering, the Company paid off all amounts outstanding under the Heller Loan Amendment (see Note 15).

Wells Fargo Loan

In March 2001, the Company obtained a \$3,004,000 loan from Wells Fargo Equipment Finance, Inc. (“Wells Fargo” and the “Wells Fargo Loan”), and this amount was fully drawn down at that time. Repayments on the Wells Fargo Loan were made over 36 months and interest accrued at 13.15% per annum. The Wells Fargo Loan was secured by certain equipment located in the New York metropolitan area IBX hub. The Wells Fargo Loan required the Company to maintain a minimum cash balance at all times. As of June 30, 2002, the Company was not in compliance with this requirement. The Company did not obtain a waiver for this requirement and the bank rejected a discounted settlement offer. Wells Fargo filed a lawsuit against the Company seeking to force the Company to obtain a letter of credit in the full amount of the outstanding balance of the Wells Fargo Loan. As a result, the Company reflected the full amount outstanding under this facility totaling \$1,631,000 as a current obligation on the accompanying balance sheet as of December 31, 2002.

In January 2003, the Company entered into a settlement agreement with Wells Fargo in connection with a lawsuit related to the Wells Fargo Loan (the “Wells Fargo Settlement”). In compliance with the terms of the Wells Fargo Settlement, in February 2003, the Company paid Wells Fargo \$1,703,000 in full satisfaction of all amounts owed to Wells Fargo, including \$1,631,000 in principal. As part of the Wells Fargo Settlement, the lawsuit was dismissed and the Wells Fargo Loan terminated.

Orix Equipment Leases

In December 2002, as a result of the Pihana Acquisition (see Note 2), the Company acquired multiple capital leases in multiple currencies for various newly acquired subsidiaries of the Company in the U.S. and

EQUINIX, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Asia-Pacific covered under a Master Lease Agreement with Sun Microsystems, Inc., which was subsequently assigned to Orix USA Corporation (the “Orix Equipment Leases”). The original amount financed under these capital leases was approximately \$3,503,000 (as translated using effective exchange rates at December 31, 2002). These capital lease arrangements bear interest at an average rate of 6.4% per annum and are repayable over 30 months. As of December 31, 2003, \$201,000 was outstanding under the Orix Equipment Leases (as translated using effective exchange rates at December 31, 2003).

Maturities

Combined aggregate maturities for debt facilities and future minimum capital lease obligations as of December 31, 2003 are as follows (in thousands):

	<u>Debt facilities</u>	<u>Capital lease obligations</u>	<u>Total</u>
2004	\$2,597	\$ 201	\$ 2,798
2005	729	—	729
	<u>3,326</u>	<u>201</u>	<u>3,527</u>
Less amount representing unamortized discount	(115)	—	(115)
	<u>3,211</u>	<u>201</u>	<u>3,412</u>
Less current portion	(2,488)	(201)	(2,689)
	<u>\$ 723</u>	<u>\$ —</u>	<u>\$ 723</u>

In February and March 2004, with the net proceeds from the Convertible Debenture Offering, the Company paid off all amounts outstanding under debt facilities, comprised of the VLL Loan Amendment and the Heller Loan Amendment (see Note 15).

6. Senior Notes

On December 1, 1999, the Company issued 200,000 units, each consisting of a \$1,000 principal amount 13% Senior Note due 2007 (the “Senior Notes”) and one warrant to purchase 0.527578 shares (for an aggregate of 105,515 shares) of common stock for \$0.2144 per share (the “Senior Note Warrants”), for aggregate net proceeds of \$193,400,000, net of offering expenses. Of the \$200,000,000 gross proceeds, \$16,207,000 was allocated to additional paid-in capital for the deemed fair value of the Senior Note Warrants and recorded as a discount to the Senior Notes. The discount on the Senior Notes is being amortized to interest expense, using the effective interest method, over the life of the debt. The Senior Notes have an effective interest rate of 14.1% per annum. The fair value attributed to the Senior Note Warrants was consistent with the Company’s treatment of its other common stock transactions prior to the issuance of the Senior Notes. The fair value was based on recent equity transactions by the Company at the time.

Interest is payable semi-annually, in arrears, on June 1 and December 1 of each year. The notes are unsecured, senior obligations of the Company and are effectively subordinated to all existing and future indebtedness of the Company, whether or not secured.

The Senior Notes are governed by the Indenture dated December 1, 1999, between the Company, as issuer, and State Street Bank and Trust Company of California, N.A., as trustee (the “Indenture”). Subject to certain exceptions, the Indenture restricts, among other things, the Company’s ability to incur additional indebtedness and the use of proceeds therefrom, pay dividends, incur certain liens to secure indebtedness or engage in merger transactions.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

During the first half of 2002, the Company retired \$52,751,000 of Senior Notes plus forgiveness of \$785,000 of accrued and unpaid interest thereon in exchange for 499,565 shares of the Company's common stock, valued at \$18,351,000 based on the actual exchange dates of the Senior Notes and \$2,511,000 of cash. The Company wrote-off a proportionate amount of unamortized debt issuance costs and debt discount associated with these Senior Notes totaling \$1,293,000 and \$3,093,000, respectively. The Company incurred debt extinguishment costs totaling approximately \$1,100,000 in connection with the retirement of these Senior Notes and recognized a gain on these transactions of \$27,188,000.

In December 2002, the Company, in connection with, and as a condition to closing the Combination (see Note 2) and Financing (see Note 8), initiated an exchange offer to substantially reduce the amount of Senior Notes then outstanding in order to improve the Company's existing capital structure and reduce the amount of outstanding debt of the Company (the "Senior Note Exchange"). The Senior Note Exchange was contingent on both the Combination and Financing closing, all of which were subject to stockholder vote. The Combination, Financing and Senior Note Exchange closed on December 31, 2002, and the Company retired an additional \$116,774,000 of Senior Notes plus forgiveness of \$8,855,000 of accrued and unpaid interest thereon in exchange for 1,857,436 shares of the Company's common stock, valued at \$12,482,000 based on the actual exchange date of the Senior Notes and \$15,181,000 of cash. The Company wrote-off a proportionate amount of unamortized debt issuance costs and debt discount associated with these Senior Notes totaling \$2,492,000 and \$6,004,000, respectively. The Company incurred debt extinguishment costs totaling approximately \$2,500,000 in connection with the retirement of these Senior Notes and recognized a gain on these transactions of \$86,970,000. In conjunction with the Combination, Financing and Senior Note Exchange, the Company amended the Indenture in order to allow the Combination and Financing to occur.

As of December 31, 2003, the Company had a total of \$30,475,000 Senior Notes remaining outstanding, which are presented net of remaining discount as \$29,220,000 on the accompanying balance sheet.

The costs related to the issuance of the Senior Notes were capitalized and are being amortized to interest expense using the effective interest method, over the life of the Senior Notes. Debt issuance costs, net of amortization and write-offs associated with debt retirement, were \$519,000 and \$650,000 as of December 31, 2003 and 2002, respectively.

In February 2004, with the proceeds from the Convertible Debenture Offering, the Company has exercised its right to redeem all of the Senior Notes and has sent a notice of redemption to the trustee. The effective date of the redemption is expected to be March 12, 2004 (see Note 15).

7. Credit Facility

On December 20, 2000, the Company and a newly created, wholly-owned subsidiary of the Company, entered into a \$150,000,000 Credit Facility (the "Credit Facility") with a syndicate of lenders. The Credit Facility consisted of the following:

- Term loan facility in the amount of \$50,000,000. The outstanding term loan amount was required to be paid in quarterly installments beginning in March 2003 and ending in December 2005. The Company drew this down in January 2001.
- Delayed draw term loan facility in the amount of \$75,000,000. The Company was required to borrow the entire facility on or before December 20, 2001. The outstanding delayed draw term loan amount was required to be paid in quarterly installments beginning in March 2003 and ending in December 2005. The Company drew this down in March 2001.
- Revolving credit facility in an amount up to \$25,000,000. The outstanding revolving credit facility was required to be paid in full on or before December 15, 2005. The Company drew this down in June 2001.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Credit Facility had a number of covenants, which included achieving certain minimum revenue targets and limiting cumulative EBITDA losses and maximum capital spending limits among others. As of September 30, 2001, the Company was not in compliance with one of these covenants. However, the syndicate of lenders provided a forbearance and, in October 2001, the Company successfully completed the renegotiation of the Credit Facility and amended certain of the financial covenants to reflect the prevailing economic environment as part of the Amended and Restated Credit Facility (the “Amended and Restated Credit Facility”). As required under this amendment, the Company repaid \$50,000,000 of the \$150,000,000 Credit Facility outstanding as of September 30, 2001, of which \$25,000,000 represented a permanent reduction. As such, the Amended and Restated Credit Facility provided a total of \$125,000,000 of debt financing and consisted of the following:

- Term loan facility, redesignated as tranche A, in the amount of \$100,000,000, which represented the remaining \$100,000,000 outstanding after repayment of the \$50,000,000 in October 2001.
- Term loan facility, redesignated as tranche B, in the amount of \$25,000,000, of which \$5,000,000 was immediately drawn with the remaining \$20,000,000 available for future draw. The remaining \$20,000,000 was only available for drawdown commencing September 30, 2002 and only if the Company remained in full compliance with all covenants as outlined in the Amended and Restated Credit Facility, and met an additional EBITDA test. The ability to draw on the remaining \$20,000,000 expired on December 31, 2002.

As of June 30, 2002, the Company was not in compliance with certain provisions, including the revenue covenant, of the Amended and Restated Credit Facility. As a result, in August 2002, the Company further amended the Amended and Restated Credit Facility (the “First Amendment to the Amended and Restated Credit Facility”). The most significant terms and conditions of the First Amendment to the Amended and Restated Credit Facility were as follows:

- The Company was granted a full waiver for the covenants that were not in compliance as of June 30, 2002. In addition, the amendment reset the minimum revenue and cash balance and maximum EBITDA loss covenants through September 30, 2002.
- The Company agreed to repay \$5,000,000 of the then outstanding balance of \$105,000,000 as of June 30, 2002, which was designated as a tranche B term loan. This amount was repaid in August 2002. In addition, the remaining \$20,000,000 available for borrowing under the Amended and Restated Credit Facility, also designated as a tranche B term loan, was permanently eliminated. As a result, the First Amendment to the Amended and Restated Credit Facility reduced the credit facility to a \$100,000,000 credit facility, which was designated a tranche A term loan, and which remained fully outstanding as of September 30, 2002.
- The Company must convert at least \$100,000,000 of Senior Notes into common stock or convertible debt on or before November 8, 2002. As of September 30, 2002, a total of \$147,249,000 of Senior Note principal remained outstanding.

In November 2002, the lenders agreed to waive certain conditions of the First Amendment to the Amended and Restated Credit Facility (the “November 2002 Waiver”). The most significant terms and conditions of the November 2002 Waiver were as follows:

- The Company was granted a waiver to reset the minimum revenue and maximum EBITDA loss covenants through December 31, 2002 and the minimum cash balance covenant through March 31, 2003.
- The Company was granted a waiver, subject to certain conditions, of an event of default created by a minimum cash covenant default and a payment default, if any, in existence pursuant to the Wells Fargo Loan (see Note 5).

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- The Company was granted a waiver of the covenant requiring the Company to convert \$100,000,000 of Senior Notes by November 8, 2002.
- The Company was granted a waiver, subject to certain conditions, of a default or an event of default created by a failure by the Company to make the interest payment due on the Senior Notes in December 2002.

The November 2002 Waiver expired upon the earlier of the closing of the Second Amendment to the Amended and Restated Credit Facility, the termination of the Combination, or December 31, 2002, provided that if the sole reason the Combination has not closed by that date is as a result of pending regulatory and related approvals, the date may be extended for up to three successive 30-day periods, but such date shall not be extended past March 31, 2003.

On December 31, 2002, the Company closed the Combination (see Note 2), Financing (see Note 8) and Senior Note Exchange (see Note 6), and in conjunction, the Company further amended the First Amendment to the Amended and Restated Credit Facility (the "Second Amendment to the Amended and Restated Credit Facility"). The most significant terms and conditions of the Second Amendment to the Amended and Restated Credit Facility were as follows:

- the Company was granted a full waiver of previous covenant breaches and was granted consent to use cash in connection with the Senior Note Exchange (see Note 6);
- future revenue and EBITDA covenants were eliminated and the remaining minimum cash balance and maximum capital expenditure covenants and other ratios were reset consistent with the expected future performance of the combined company for the remaining term of the loan;
- the Company permanently repaid \$8,490,000 of the then currently outstanding \$100,000,000 balance, bringing the total amount owed under this facility to \$91,510,000 as of December 31, 2002; and
- the amortization schedule for the remaining amount owed under this facility was amended such that the minimum amortization due in 2003-2004 was significantly reduced.

In November 2003, in connection with the Follow-on Equity Offering (see Note 9), the Company received consent from its senior lenders to amend the terms of Second Amendment to the Amended and Restated Credit Facility (the "Third Amendment to the Amended and Restated Credit Facility"). The most significant terms and conditions of the Third Amendment to the Amended and Restated Credit Facility are as follows:

- the Company permanently repaid \$55.2 million of the then currently outstanding principal balance of \$90.5 million;
- the banks agreed to amend the cash sweep provision, which was to commence on March 31, 2004 and would have required the Company to pay down its principal balance in an amount equal to 50% of any cash on the Company's balance sheet in excess of \$20.0 million. This provision was amended such that it will not commence until March 31, 2005 and will only be triggered on cash amounts in excess of \$25.0 million; and
- the banks agreed to extend the term of the Third Amendment to the Amended and Restated Credit Facility from December 2005 to December 2006. In addition, the banks amended the amortization schedule.

Loans under the Third Amendment to the Amended and Restated Credit Facility bear interest at floating rates, plus applicable margins, based on either the prime rate or LIBOR. Interest rates on the First Amendment to the Amended and Restated Credit Facility were increased by 0.50% and the frequency of interest payments had

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

been amended to monthly from quarterly, and such modifications remain in effect under the terms of the Third Amendment to the Amended and Restated Credit Facility. As of December 31, 2003, the Company's total indebtedness under the Third Amendment to the Amended and Restated Credit Facility was \$34,281,000 and had an effective interest rate of 5.96%.

Borrowings under the Third Amendment to the Amended and Restated Credit Facility are collateralized by a first priority lien against substantially all of the Company's assets.

The costs related to the issuance of the Credit Facility were capitalized and are being amortized to interest expense using the effective interest method, over the life of the Credit Facility. As a result of amending and restating the Credit Facility multiple times from 2001 to 2003, the Company incurred additional lender fees, which have been added to debt issuance costs and are being amortized to interest expense using the effective interest method over the remaining life of the Third Amendment to the Amended and Restated Credit Facility. The Company applied EITF 96-19, "Debtor's Accounting for a Substantive Modification and Exchange of Debt Instruments", and concluded that the amendments to the Credit Facility were not substantive. Total debt issuance costs, net of amortization, were \$4,451,000 and \$5,757,000 as of December 31, 2003 and 2002, respectively.

Repayment of principal under the Third Amendment to the Amended and Restated Credit Facility is summarized as follows as of December 31, 2003 (in thousands):

Year ending:	
2004	\$ 12,000
2005	12,000
2006	10,281
	<hr/>
Total	\$ 34,281
	<hr/>

In February 2004, with the proceeds from the Convertible Debenture Offering, the Company paid off all amounts outstanding under the Third Amendment to the Amended and Restated Credit Facility (see Note 15).

8. Convertible Secured Notes

The Financing

In conjunction with the Combination (see Note 2), STT Communications made a \$30,000,000 strategic investment in the Company (the "Financing") in the form of a convertible secured note (the "Convertible Secured Note"), convertible into shares of preferred stock, with a detachable warrant for the further issuance of 965,674 shares of preferred stock (the "Convertible Secured Note Warrant"). The Convertible Secured Note bears non-cash interest at a rate of 14% per annum, payable semi-annually in arrears on May 1 and November 1, and have an initial term through November 2007. Interest on the Convertible Secured Note will be payable in kind in the form of additional convertible secured notes having a principal amount equal to the amount of interest then due having terms which are identical to the terms of the Convertible Secured Note (the "PIK Notes").

The Convertible Secured Note Warrant was valued at \$4,646,000, which was recorded as a discount to the debt principal. The fair value of the Convertible Secured Note Warrant was calculated under the provisions of APB 14 and determined using the Black-Scholes option-pricing model under the following assumptions: contractual life of five years, risk-free interest rate of 4%, expected volatility of 135% and no expected dividend yield. The Company has considered the guidance in EITF Abstract No. 98-5, "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios", and has determined that the Convertible Secured Note does not contain a beneficial conversion feature as the fair value of

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the Company's common stock on the date of issuance, was less than the stock conversion ratio outlined in the agreement. The allocated value to the Convertible Secured Note Warrant of \$4,646,000 will be amortized using the effective interest rate method to interest expense over the five-year term of the Convertible Secured Note.

The Convertible Secured Note is secured by (i) a first priority security interest in i-STT's assets and Pihana's Singapore assets and by a pledge of the stock of i-STT's subsidiaries and (ii) by a second priority security interest in all of the collateral securing the Company's obligations under the Credit Facility, as amended. The Convertible Secured Note is guaranteed by all of the Company's existing subsidiaries and by all of the Company's future domestic subsidiaries.

The Convertible Secured Note, the Convertible Secured Note Warrant and any outstanding PIK Notes can be converted into shares of the Company's Series A or Series A-1 preferred stock at a price of \$9.1779 per underlying share at any time at the option of STT Communications (the "Conversion Price"). The Conversion Price will be adjusted to mitigate or prevent dilution, dividends are declared, or the Company issues, or contracts to issue, shares of the Company's common stock at a price per share below the Conversion Price. After December 31, 2004 and through December 31, 2005, the Company may convert 95% of the Convertible Secured Note and after December 31, 2005, the Company may convert 100% of the Convertible Secured Note, if:

- the closing price of the Company's common stock exceeds \$32.1235 for thirty consecutive trading days;
- the average daily trading volume of the Company's common stock during that thirty day trading window exceeds 17,188; and
- the Company has caused a registration statement to become effective under the Securities Act which provides for the resale by the noteholders of the shares of the Company's common stock issued or issuable upon conversion.

The Company must offer to purchase the Convertible Secured Note and any outstanding PIK Notes together with any accrued and unpaid interest if the Company experiences a change of control, as defined. In addition, in connection with the Financing, the Company issued a warrant to STT Communications, which will become exercisable if the Company does experience a change of control (the "Change in Control Warrant"). The Change of Control Warrant, which has an exercise price of \$0.01 per share and a contractual life of five years, is contingently exercisable for shares of the Company's common stock with a total current market value of up to 20% of:

- the \$30,000,000 principal amount of the Convertible Secured Note, plus
- the principal amount of any issued and outstanding PIK Notes, minus
- the principal amount of any portion of the Convertible Secured Note which has been converted into shares of the Company's capital stock or repaid in cash, plus
- accrued and unpaid interest on any then outstanding portion of the Convertible Secured Note.

Furthermore, the Company, in order to provide a mechanism to allow STT Communications to ensure the Company's compliance with covenants under the Second Amendment to the Amended and Restated Credit Facility, as amended (see Note 7), issued two additional warrants to STT Communications in conjunction with the Financing. These two additional warrants, comprised of the Series A Cash Trigger Warrant and the Series B Cash Trigger Warrant (collectively, the "Cash Trigger Warrants"), were contingently exercisable if the Company (i) did not have sufficient funds to pay, and failed to pay when due, any principal, interest, fee or other amount due under the Second Amendment to the Amended and Restated Credit Facility, as amended, or (ii) breached the Company's obligations to maintain certain minimum cash balances under the terms of the Second Amendment to

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the Amended and Restated Credit Facility, as amended. The Cash Trigger Warrants, which were to have a contractual life for as long as the Company had any remaining amounts due under the Second Amendment to the Amended and Restated Credit Facility, as amended, would have had an exercise price and be exercisable for shares of the Company's common stock valued at up to \$30,000,000 as follows:

- The Series A Cash Trigger Warrant would have had a value of \$10,000,000, with an exercise price per share which was the lesser of (i) \$9.792 or (ii) 90% of the then current market value of shares of the Company's common stock. The \$9.792 exercise price of the Series A Cash Trigger Warrant would have been adjusted to mitigate or prevent dilution if fundamental changes occurred to the Company's common stock, dividends were declared, or the Company issued, or contracted to issue, shares of the Company's common stock at a price per share below \$9.792.
- The Series B Cash Trigger Warrant would have had a value of \$20,000,000, with an exercise price per share equal to 90% of the then current market value of shares of the Company's common stock.

The holder of the Cash Trigger Warrants, STT Communications, had no obligation to exercise such warrants. If the Cash Trigger Warrants were exercised based on the inability to pay any principal, interest or fees due under the Second Amendment to the Amended and Restated Credit Facility, as amended, the Cash Trigger Warrants would have been exercisable for not less than \$5,000,000 and not more than \$5,000,000 plus the amount of the missed payment. If the Cash Trigger Warrants were exercised on the inability of the Company to maintain certain minimum cash balances under the terms of the Second Amendment to the Amended and Restated Credit Facility, as amended, the Cash Trigger Warrants would have been exercisable for not less than \$5,000,000 and not more than \$5,000,000 plus any shortfall in the Company's minimum cash balance requirement.

The Company applied EITF 00-27, "Application of Issue No. 98-5 to Certain Convertible Instruments", and EITF 96-18, "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services", and concluded that neither a commitment date, or a measurement date, had occurred when the Financing was closed as of December 31, 2002 in relation to the Change in Control Warrant and the Cash Trigger Warrants. As a result, the Change in Control Warrant and the Cash Trigger Warrants have been treated, and will continue to be treated, as unissued for accounting purposes until such time as the events that trigger the right to the issuance of shares of the Company's stock as outlined in these warrants have occurred, if ever.

As a result of the Company fully paying off the Credit Facility in February 2004 (see Note 15), the Cash Trigger Warrants are no longer exercisable and are deemed canceled.

During 2003, the Company issued the first two PIK Notes on May 1 and November 1, 2003, to STT Communications totaling \$3,598,000. The terms of the PIK Notes are identical to the terms of the Convertible Secured Note issued on December 31, 2002. The PIK Notes are due December 2007. As of December 31, 2003, the Company had a total of \$33,598,000 of principal outstanding for the Convertible Secured Note and the PIK Notes issued to STT Communications (collectively, the "STT Convertible Secured Notes"), which are presented net of remaining discount as \$29,968,000 on the accompanying balance sheet as of December 31, 2003.

The STT Convertible Secured Notes are convertible into 3,660,765 shares of the Company's preferred and common stock as of December 31, 2003.

The costs related to the Financing were capitalized and are being amortized to interest expense using the effective interest method, over the life of the Convertible Secured Note. Debt issuance costs, net of amortization, were \$455,000 and \$617,000 as of December 31, 2003 and 2002, respectively.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Crosslink Financing

In April 2003, the Company and certain of its subsidiaries, along with STT Communications and its affiliate, entered into a Securities Purchase and Admission Agreement with various entities affiliated with Crosslink Capital (“Crosslink”) for a \$10,000,000 investment in the Company by Crosslink in the form of convertible secured notes (the “Crosslink Convertible Secured Notes”), convertible into shares of the Company’s common stock, with detachable warrants for the further issuance of 500,000 shares of common stock (the “Crosslink Convertible Secured Note Warrants”) (collectively, the “Crosslink Financing”). This transaction closed in June 2003 and the Crosslink Convertible Secured Note Warrants were also fully exercised in June 2003. The Crosslink Convertible Secured Notes bear non-cash interest at a rate of 10% per annum, commencing on the second anniversary of the closing of the Crosslink Financing, payable semi-annually in arrears on May 1 and November 1, and have an initial term through November 2007. Interest on the Crosslink Convertible Secured Notes will be payable in kind in the form of additional convertible secured notes having a principal amount equal to the amount of interest then due having terms which are similar to the terms of the Crosslink Convertible Secured Notes (the “Crosslink PIK Notes”).

The Crosslink Convertible Secured Notes are convertible into shares of the Company’s common stock at a price of \$4.00 per underlying share at any time at the option of the holders. The Crosslink PIK Notes will be convertible into shares of the Company’s common stock at a price of \$4.84 per underlying share at any time at the option of the holders. Such conversion prices will be adjusted to mitigate or prevent dilution, dividends are declared on the Company’s common stock or the Company issues, or contracts to issue, shares of the Company’s common stock at a price per share below \$4.84 per share. Following June 2005, 100% of the Crosslink Convertible Secured Notes will automatically convert if:

- the average closing price of the Company’s common stock exceeds \$15.66 for thirty consecutive trading days;
- the average daily trading volume of the Company’s common stock during that thirty day trading window exceeds 17,188; and
- the Company has not received an election not to convert the Crosslink Convertible Secured Notes within five days of receiving notice from the Company that the closing price and volume requirements discussed above have been met.

If Crosslink elects not to convert the Crosslink Convertible Secured Notes within such five-day period, the Crosslink Convertible Secured Notes and any Crosslink PIK Notes will no longer be convertible into shares of the Company’s common stock. The Company must offer to purchase the Crosslink Convertible Secured Notes and any outstanding Crosslink PIK Notes together with any accrued and unpaid interest if the Company experiences a change of control, as defined. Furthermore, the Company has issued to Crosslink, Change in Control Warrants and Cash Trigger Warrants similar to those issued to STT Communications in connection with the Financing.

The Crosslink Convertible Secured Note Warrants were valued at \$2,796,000, which was recorded as a discount to the debt principal. The fair value of the Crosslink Convertible Secured Note Warrants was calculated under the provisions of APB Opinion No. 14 and determined using the Black-Scholes option-pricing model under the following assumptions: contractual life of five years, risk-free interest rate of 4%, expected volatility of 135% and no expected dividend yield. The Company has considered the guidance of EITF Abstract No. 00-27, “Application of Issue No. 98-5 to Certain Convertible Instruments,” and has determined that the Crosslink Convertible Secured Notes do contain a beneficial conversion feature. The beneficial conversion feature was valued at \$7,204,000 (the “Crosslink Beneficial Conversion Feature”), and is also reflected as a discount to the debt principal. The combined values of both the Crosslink Convertible Secured Note Warrants and the Crosslink

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Beneficial Conversion Feature, totaling \$10,000,000, are being amortized using the effective interest rate method to interest expense over the term of the Crosslink Convertible Secured Notes.

The Crosslink Convertible Secured Notes share with the Company's Convertible Secured Note issued on December 31, 2002, in connection with the Financing, a second priority security interest in all of the collateral securing the Company's obligations under the Second Amendment to the Amended and Restated Credit Facility, as amended, which excludes the i-STT assets and Pihana's Singapore assets that the Company acquired in the Combination (see Note 2). The Crosslink Convertible Secured Notes are guaranteed by all of the Company's existing subsidiaries and by all of the Company's future domestic subsidiaries.

As of December 31, 2003, the Crosslink Convertible Secured Notes are presented net of remaining discount as \$1,715,000 on the accompanying balance sheet as of December 31, 2003.

The Crosslink Convertible Secured Notes are convertible into 2,500,000 shares of the Company's common stock as of December 31, 2003.

The costs related to the Crosslink Financing were capitalized and are being amortized to interest expense using the effective interest rate method over the life of the Crosslink Convertible Secured Notes. Debt issuance costs, net of amortization, were \$435,000 as of December 31, 2003.

The Convertible Secured Note and PIK Notes issued in connection with the Financing, the Crosslink Convertible Secured Notes and the Crosslink PIK Notes are collectively referred to herein as the "Convertible Secured Notes".

9. Stockholders' Equity

In December 2002, the Company amended and restated its Certificate of Incorporation to change the authorized share capital to 300,000,000 shares of common stock and 100,000,000 shares of preferred stock, of which 25,000,000 has been designated Series A, 25,000,000 has been designated as Series A-1 and 50,000,000 is undesignated.

Preferred Stock

On December 31, 2002, as a result of the i-STT Acquisition (see Note 2), the Company issued 1,868,667 shares of Series A preferred stock to STT Communications. As of December 31, 2003, this preferred stock had a total liquidation value of \$18,298,000.

The rights, preferences and privileges of the Series A and Series A-1 preferred stock are as follows:

Voting Rights. Holders of Series A preferred stock are entitled to one vote for each share of common stock into which such preferred stock could then be converted. Except as otherwise provided by the Delaware General Corporation Law, Series A-1 preferred stock shall have no voting rights. Until the earlier of either December 31, 2004 or the date on which less than 100 shares of the Company's Series A preferred stock remain outstanding, the holders of shares of Series A preferred stock will be entitled to elect a number of directors at any election of directors, as follows:

- three directors for so long as the holders of Series A preferred stock collectively beneficially own at least 30% of the Company's outstanding voting stock;
- two directors for so long as the holders of Series A preferred stock collectively beneficially own at least 15% of the Company's outstanding voting stock;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- one director for so long as the holders of Series A preferred stock collectively beneficially own at least 100 shares of the Company's outstanding voting stock; and
- no directors at such time as the holders of Series A preferred stock collectively beneficially own less than 100 of the Company's outstanding voting stock.

Dividend Rights. Holders of Series A preferred stock and Series A-1 preferred stock are entitled to receive an amount equal to any dividend paid on the Company's common stock as may be declared from time to time by the Company's board of directors.

Liquidation Rights. In the event of the Company's liquidation, dissolution or winding up, the Company's assets available for distribution to stockholders will be distributed to holders of common stock, Series A preferred stock and Series A-1 preferred stock on a pro rata basis, based on the number of shares of common stock held by each assuming full conversion of Series A preferred stock and Series A-1 preferred stock, until holders of Series A preferred stock and Series A-1 preferred stock have received \$9.792 per share of Series A preferred stock and Series A-1 preferred stock, plus the amount of any declared but unpaid dividends for each share of Series A preferred stock and Series A-1 preferred stock. Thereafter, any remaining available assets for distribution to stockholders will be distributed among the holders of the Company's common stock pro rata based on the number of shares of common stock held by each.

Redemption Rights. Beginning after December 31, 2009, the Company may at any time it may lawfully do so, at the option of the Company's board of directors, redeem some or all of the Series A preferred stock or Series A-1 preferred stock, on a pro rata basis, at a price in cash per share equal to the number of shares of the Company's common stock into which such share may then be converted multiplied by the average closing sale price of the Company's common stock on The Nasdaq National Market (or any trading system on which the Company's common stock may then trade) over the 30 consecutive trading day period ending five trading days prior to the date of redemption. There are no sinking fund provisions applicable to the Company's Series A preferred stock or Series A-1 preferred stock.

Conversion and Other Rights. The Company's Series A preferred stock is convertible at any time into shares of common stock on a one-for-one basis. The Company's Series A-1 preferred stock is convertible into Series A preferred stock or shares of common stock on a one-for-one basis as long as the conversion of the Series A-1 preferred stock will not cause STT Communications to hold more than 40% of outstanding voting stock. Notwithstanding this limitation, and except for limitations imposed by the HSR Antitrust Improvements Act of 1976, as amended (the "HSR Act"), the Company's Series A-1 preferred stock is convertible into Series A preferred stock or common stock in the following circumstances:

- STT Communications makes a fully financed tender offer for all of the Company's outstanding stock and at least 50% of the outstanding shares not held by STT Communications are tendered;
- the Company commences bankruptcy or reorganization proceedings;
- a third party obtains a 15% interest in the Company;
- the Company agrees to sell a 15% or greater interest in the Company to a third party;
- the Company sells all or substantially all of its assets, or enters into an agreement to sell all or substantially all of its assets;
- a third party commences a bona fide, fully financed tender offer;
- STT Communications' nominees are not elected to our board of directors despite STT Communications voting in favor of such nominees;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- the Company breaches certain material agreements with STT Communications contained in the Financing or Combination agreements (see Notes 2 and 8);
- STT Communications' interest in the Company falls below 10%; or
- the Cash Trigger Warrants are exercised (see Note 8).

In addition, the Company may force all but 100 shares of the Company's Series A preferred stock and all shares of Series A-1 preferred stock (subject to the conversion restrictions described above) to convert into shares of the Company's common stock after the Company reports four consecutive quarters of net income.

The Company's Series A and Series A-1 preferred stock have no preemptive or other subscription rights.

Common Stock

On November 21, 2003, the Company sold 5,524,780 shares of common stock at a purchase price of \$20.00 per share, which resulted in net proceeds to the Company of \$104.4 million. We refer to this transaction as the follow-on equity offering (the "Follow-on Equity Offering").

Upon the exercise of certain unvested stock options, the Company issued to employees common stock which is subject to repurchase by the Company at the original exercise price of the stock option. This right lapses over the vesting period. As of December 31, 2003 and 2002, there were 150 and 6,986 shares, respectively, subject to repurchase.

As of December 31, 2003, the Company has reserved the following shares of authorized but unissued shares of common stock for future issuance:

Conversion of convertible secured notes	6,160,765
Conversion of issued and outstanding preferred stock	1,868,667
Conversion of preferred stock warrant	965,674
Common stock warrants	265,615
Common stock options	5,652,382
Common stock purchase plan	13,301
	<hr/>
	14,926,404
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Stock Purchase Plan

In May 2000, the Company adopted the Employee Stock Purchase Plan (the "Purchase Plan") under which 31,250 shares were reserved for issuance thereafter. On each January 1, the number of shares in reserve will automatically increase by 2% of the total number of shares of common stock outstanding at that time, or, if less, by 600,000 shares. The Purchase Plan permits purchases of common stock via payroll deductions. The maximum payroll deduction is 15% of the employee's cash compensation. Purchases of the common stock will occur on February 1 and August 1 of each year. The price of each share purchased will be 85% of the lower of:

- The fair market value per share of common stock on the date immediately before the first day of the applicable offering period (which lasts 24 months); or
- The fair market value per share of common stock on the purchase date.

The value of the shares purchased in any calendar year may not exceed \$25,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

For the year ended December 31, 2003, 191,307 shares were issued under the Purchase Plan at a weighted average purchase price of \$2.98 per share. For the year ended December 31, 2002, 16,689 shares were issued under the Purchase Plan at a weighted average purchase price of \$24.84 per share. For the year ended December 31, 2001, 16,427 shares were issued under the Purchase Plan at a weighted average purchase price of \$89.85 per share.

Stock Option Plans

In September 1998, the Company adopted the 1998 Stock Plan. In May 2000, the Company adopted the 2000 Equity Incentive Plan and 2000 Director Stock Option Plan; and in September 2001, the Company adopted the 2001 Supplemental Stock Plan (collectively, the “Plans”) under which nonstatutory stock options and restricted stock may be granted to employees, outside directors, consultants, and incentive stock options may be granted to employees. Accordingly, the Company reserved a total of 5,708,326 shares of the Company’s common stock for issuance upon the grant of restricted stock or exercise of options granted in accordance with the Plans. On each January 1, commencing with the year 2001, the number of shares in reserve will automatically increase by 6% of the total number of shares of common stock that are outstanding at that time or, if less, by 6,000,000 shares for the 2000 Equity Incentive Plan and by 50,000 shares for the 2000 Director Stock Option Plan. Options granted under the Plans generally expire 10 years following the date of grant and are subject to limitations on transfer. The Plans are administered by the Board of Directors.

The Plans provide for the granting of incentive stock options at not less than 100% of the fair market value of the underlying stock at the grant date. Nonstatutory options may be granted at not less than 85% of the fair market value of the underlying stock at the date of grant.

Option grants under the Plans are subject to various vesting provisions, all of which are contingent upon the continuous service of the optionee and may not impose vesting criterion more restrictive than 20% per year. Stock options may be exercised at anytime subsequent to grant. Stock obtained through exercise of unvested options is subject to repurchase at the original purchase price. The Company’s repurchase right decreases as the shares vest under the original option terms.

Options granted to stockholders who own greater than 10% of the outstanding stock must have vesting periods not to exceed five years and must be issued at prices not less than 110% of the fair market value of the stock on the date of grant as determined by the Board of Directors.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A summary of the Plans is as follows:

	Shares available for grant	Number of shares	Weighted-average exercise price per share
Balances, December 31, 2000	1,888,588	281,756	\$ 150.99
Additional shares authorized	2,394,356	—	—
Options granted	(497,700)	497,700	44.20
Options exercised	—	(15,534)	28.03
Options forfeited	110,762	(110,762)	138.31
Shares repurchased	7,807	—	2.28
Balances, December 31, 2001	3,903,813	653,160	74.26
Additional shares authorized	934,651	—	—
Options granted	(147,244)	147,244	26.75
Options exercised	—	(12,965)	8.67
Options forfeited	61,618	(61,618)	77.66
Balances, December 31, 2002	4,752,838	725,821	65.51
Additional shares authorized	556,921	—	—
Options granted	(3,275,295)	3,275,295	5.52
Options exercised	—	(383,198)	4.02
Options forfeited	209,980	(209,980)	20.08
Balances, December 31, 2003	2,244,444	3,407,938	17.56

The following table summarizes information about stock options outstanding as of December 31, 2003:

Range of exercise prices	Outstanding			Exercisable	
	Number of shares	Weighted-average remaining contractual life	Weighted-average exercise price	Number of shares	Weighted-average exercise price
\$ 2.13 to \$ 3.00	187,144	9.02	\$ 2.95	42,109	\$ 2.77
\$ 3.19 to \$ 3.39	2,064,931	9.18	3.25	438,318	3.25
\$ 4.02 to \$ 5.70	17,995	9.19	5.19	1,750	5.70
\$ 7.36 to \$ 10.24	49,206	9.38	8.58	6,319	8.96
\$ 12.16 to \$ 18.00	534,690	9.15	15.96	186,718	13.07
\$ 18.61 to \$ 27.84	132,481	9.31	22.26	18,051	22.30
\$ 28.48 to \$ 41.60	154,595	7.61	29.79	90,087	30.01
\$ 43.20 to \$ 76.00	41,121	7.39	54.59	26,688	54.69
\$ 85.33 to \$128.00	83,772	6.86	115.90	65,374	116.56
\$140.00 to \$208.00	104,018	6.41	146.06	92,223	145.74
\$224.00 to \$384.00	37,985	6.54	232.97	32,336	232.29
	3,407,938	8.91	17.56	999,973	37.19

The weighted-average remaining contractual life of options outstanding at December 31, 2003 and December 31, 2002 was 8.91 years and 8.32 years, respectively. The weighted-average exercise price of options outstanding at December 31, 2003 and December 31, 2002 was \$17.56 and \$65.51, respectively.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Stock-Based Compensation*Employees*

The Company uses the intrinsic-value method prescribed in APB No. 25 in accounting for its stock-based compensation arrangements with employees. Stock-based compensation expense is recognized for employee stock option grants in those instances in which the deemed fair value of the underlying common stock was subsequently determined to be greater than the exercise price of the stock options at the date of grant. In September 2003, the Compensation Committee of the Board of Directors awarded a stock option grant to the Company's chief executive officer to purchase 350,000 shares of the Company's common stock at an exercise price of \$17.70, a 15% discount to the then fair market value of the Company's common stock on the date of grant. This resulted in the Company recording a new deferred stock-based compensation charge of \$1,093,000, which will be amortized to stock-based compensation expense over the three-year vesting life of this grant. In total, the Company recorded deferred stock-based compensation, net of forfeitures, related to employees of \$983,000 for the year ended December 31, 2003. A total of \$2,818,000, \$6,859,000 and \$18,993,000 has been amortized to stock-based compensation expense for the years ended December 31, 2003, 2002 and 2001, respectively, on an accelerated basis over the vesting period of the individual options, in accordance with FASB Interpretation No. 28.

Non-Employees

The Company uses the fair value method to value options granted to non-employees. In connection with its grant of options to non-employees, the Company has recognized an increase in deferred stock-based compensation of \$89,000 for the year ended December 31, 2003. However, the Company recognized reductions in deferred stock-based compensation of \$118,000 and \$164,000 for the years ended December 31, 2002 and 2001, respectively, due to a reduction in the fair value of the Company's stock during these periods. A total of \$87,000, \$19,000 and \$51,000 has been amortized to stock-based compensation expense for the years ended December 31, 2003, 2002, and 2001, respectively. There was one non-employee stock option grant during 2003.

The Company's calculations for non-employee grants were made using the Black-Scholes option-pricing model with the following weighted average assumptions for the years ended December 31:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Dividend yield	0%	0%	0%
Expected volatility	110%	135%	80%
Risk-free interest rate	4.62%	4.00%	5.14%
Expected life (in years)	10.00	10.00	10.00

Warrants

In November 1999, the Company entered into a definitive agreement with WorldCom, whereby WorldCom agreed to install high-bandwidth local connectivity services to the Company's first seven IBX hubs by a pre-determined date in exchange for a warrant to purchase 21,094 shares of common stock of the Company at \$21.33 per share (the "WorldCom Warrant"). The WorldCom Warrant was immediately exercisable and expired five years from the date of grant. The WorldCom Warrant was initially valued at \$2,969,000 using the Black-Scholes option-pricing model and had been recorded initially to construction in progress until installation was complete. The following assumptions were used in determining the fair value of the warrant: deemed fair market value per share of \$153.60, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 5.5% and a contractual life of 5 years. In June 2000, the agreement with Worldcom was amended (see below).

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In January 2000, the Company entered into an operating lease agreement for its new corporate headquarters facility in Mountain View, California. In connection with the lease agreement, the Company granted the lessor a warrant to purchase up to 1,034 shares of the Company's common stock at \$192.00 per share (the "Headquarter Warrant"). The warrant expires 10 years from the date of grant. The warrant was valued at \$186,000 using the Black-Scholes option pricing model and was recorded as additional rent expense during the Company's lease term at that location (the Company terminated this lease and moved its headquarters to Foster City in March 2003). The following assumptions were used in determining the fair value of the warrant: deemed fair value per share of \$209.60, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 6.0% and a contractual life of 10 years.

In April 2000, the Company entered into a definitive agreement with a fiber carrier whereby the fiber carrier agreed to install high-bandwidth local connectivity services to a number of the Company's IBX hubs in exchange for colocation space and related benefits in such IBX hubs. In connection with this agreement, the Company granted the fiber carrier a warrant to purchase up to 16,875 shares of the Company's common stock at \$128.00 per share (the "Fiber Warrant"). The warrant was immediately exercisable and expires five years from date of grant. A total of 4,375 shares were immediately vested and the remaining 12,500 shares are subject to repurchase at the original exercise price if certain performance commitments are not completed by a pre-determined date. The fiber carrier is not obligated to install high-bandwidth local connectivity services and, apart from forfeiting the relevant number of shares and colocation space, will not be penalized for not installing. The warrant was initially valued at \$5,372,000 using the Black-Scholes option-pricing model and had been recorded initially to construction in progress until installation was completed. The following assumptions were used in determining the fair value of the warrant: deemed fair market value per share of \$378.24, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 6.56% and a contractual life of 5 years. Under the applicable guidelines in EITF 96-18, the underlying shares of common stock associated with these warrants subject to repurchase are revalued at each balance sheet date to reflect their current fair value until the performance commitment is complete. As of December 31, 2003, a total of 1,562 shares remain unearned. As the Company has no plans to construct any additional IBX hubs in the foreseeable future, the value of these unearned shares is reflected in other assets on the accompanying balance sheets totaling \$7,000 and \$5,000 as of December 31, 2003 and 2002, respectively.

In June 2000, the Company entered into a memorandum of understanding with COLT Telecommunications ("Colt") whereby Colt agreed to install high-bandwidth local connectivity services to a number of the Company's European IBX hubs in exchange for colocation space and related benefits in such IBX hubs. In connection with this agreement, the Company granted Colt a warrant to purchase up to 7,813 shares of the Company's common stock at \$170.67 per share (the "Colt Warrant"). The warrant was immediately exercisable and expires five years from the date of grant. The shares are subject to repurchase at the original exercise price if certain performance commitments are not completed by a pre-determined date. Colt is not obligated to install high-bandwidth local connectivity services and, apart from forfeiting the relevant number of shares and colocation space, will not be penalized for not installing. The warrant was initially valued at \$2,795,000 using the Black-Scholes option-pricing model and was initially recorded to construction in progress. The following assumptions were used in determining the fair value of the warrants: deemed fair market value per share of \$434.56, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 6.23% and a contractual life of 5 years. Under the applicable guidelines in EITF 96-18, the underlying shares of common stock associated with this warrant subject to repurchase are revalued at each balance sheet date to reflect their current fair value until the performance commitment is complete. As of December 31, 2003, the Colt Warrant remains unearned as a result of the Company's revised European services strategy (see Note 14). As a result, the value of these unearned shares is now reflected in other assets on the accompanying balance sheet totaling \$27,000 and \$25,000 as of December 31, 2003 and 2002, respectively.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In June 2000, the Company entered into a strategic agreement with WorldCom and UUNET, an affiliate of WorldCom (the “UUNET Strategic Agreement”), which amended, superseded and restated the definitive agreement entered into with WorldCom in November 1999 and the related WorldCom Warrant. Under the UUNET Strategic Agreement, WorldCom agreed to install high-bandwidth local connectivity services and UUNET agreed to provide high-speed data entrance facilities to a number of the Company’s IBX hubs in exchange for colocation services and related benefits in such IBX hubs. In connection with this strategic agreement, the Company granted WorldCom Venture Fund a warrant (the “WorldCom Venture Fund Warrant”) to purchase up to 20,313 shares of Company’s common stock at \$170.67 per share and all but 1,172 of the shares under the earlier WorldCom Warrant were immediately vested under the UUNET Strategic Agreement. As of January 31, 2002, all shares under the earlier Worldcom Warrant had been fully earned. The WorldCom Venture Fund Warrant was immediately exercisable and expired five years from the date of grant. The warrant was subject to repurchase at the original exercise price if certain performance commitments are not completed by a pre-determined date. WorldCom and UUNET were not obligated to install high-bandwidth local connectivity services and provide high-speed data entrance facilities, respectively, and, apart from forfeiting the relevant number of shares and colocation space, were not to be penalized for not performing. The warrant was initially valued at \$7,255,000 using the Black-Scholes option-pricing model and had been recorded initially to construction in progress until installation was complete. The following assumptions were used in determining the fair value of the warrant: deemed fair market value per share of \$434.56, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 6.23% and a contractual life of 5 years. In September 2001, the Worldcom Venture Fund Warrant was amended (see below).

In September 2001, the Company amended and restated the Worldcom Venture Fund Warrant, issued in June 2000, and reduced the total number of shares available to purchase to 9,219 shares of the Company’s common stock at \$170.56 per share, which had been previously earned. In return for providing services to the New York metropolitan area IBX hub, the Company issued two new warrants to the Worldcom Venture Fund. The first new warrant was to purchase 11,094 shares of the Company’s common stock at \$0.01 per share, of which 4,688 shares were immediately vested and exercisable (the “Second Worldcom Venture Fund Warrant”). The second new warrant was to purchase 7,656 shares of the Company’s common stock at \$0.01 per share (the “Third Worldcom Venture Fund Warrant”). All Worldcom Venture Fund warrants expire five years from the date of grant. The Company has accounted for these warrants in accordance with the guidance in EITF 96-18 and EITF Abstracts Topic D-90. The unearned portion of the Second Worldcom Venture Fund Warrant and the Third Worldcom Venture Fund Warrant would be fully earned and exercisable at such time as Worldcom provides services, as defined in the warrant agreements, to the New York metropolitan area IBX hub. The unearned portion of the Second Worldcom Venture Fund Warrant and the Third Worldcom Venture Fund Warrant were subject to a reduction in shares if there were Worldcom-caused delays in providing Worldcom service by the opening date of the New York metropolitan area IBX hub. Consistent with the guidance of EITF 96-18 and EITF Abstracts Topic D-90, these warrants were treated as unissued for accounting purposes until the future services are received from the fiber carrier. The earned portion of the Second Worldcom Venture Fund Warrant, however, was valued in September 2001 at \$56,000 using the Black-Scholes option-pricing model and had been recorded initially to construction in progress until installation was complete. The following assumptions were used in determining the fair value of the earned portion of this warrant: fair market value per share of \$12.16, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 6.00% and a contractual life of 5 years.

In January 2002, Worldcom completed their installation of fiber in the Company’s New York metropolitan area IBX hub, and the Company valued the unearned portion of the Second Worldcom Venture Fund Warrant and the Third Worldcom Venture Fund Warrant, representing 6,406 and 7,656 shares of the Company’s common stock, respectively. The Second Worldcom Venture Fund Warrant and the Third Worldcom Venture Fund Warrant were valued at \$1,040,000 using the Black-Scholes option-pricing model and have been recorded to property and equipment as a leasehold improvement. The following assumptions were used in determining the

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

fair value of these warrants: fair market value per share of \$2.32, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 4.00% and a contractual life of five years.

In addition, the Company has issued several warrants in connection with its debt facilities and capital lease obligations (see Note 5), the Senior Notes (see Note 6), two European lease terminations (see Note 11) and the Pihana Acquisition (see Note 2).

The Company has the following common stock warrants outstanding as of December 31, 2003:

	<u>Underlying shares outstanding</u>	<u>Exercise price</u>
Common stock warrants:		
Amended and Restated Original VLL Warrants	7,406	\$ 0.32
VLL Loan Amendment Warrants	28,844	0.32
Senior Note Warrants	19,780	0.21
WorldCom Warrant	21,094	21.33
Headquarter Warrant	1,034	192.00
Fiber Warrant	16,875	128.00
Colt Warrant	7,813	170.67
Worldcom Venture Fund Warrant	9,219	170.56
Second Worldcom Venture Fund Warrant	11,094	0.32
Third Worldcom Venture Fund Warrant	7,656	0.32
Heller Warrant	1,172	128.00
Pihana Shareholder Warrants	133,442	191.81
Other warrant	186	160.00
	<u>265,615</u>	

In addition to the above common stock warrants outstanding as of December 31, 2003, the Company also has several additional warrants issued in connection with the Financing and Crosslink Financing, which are comprised of the Convertible Secured Note Warrant, the Change in Control Warrants and the Cash Trigger Warrants (see Note 8). The Change in Control Warrants are contingently issuable. The Cash Trigger Warrants were contingently issuable and expired unexercised in February 2004 in conjunction with the Company's repayment of the Credit Facility (see Note 15).

10. Income Taxes

Income or loss before income taxes is attributable to the following geographic locations for the years ended December 31 (in thousands):

	<u>2003</u>	<u>2002</u>	<u>2001</u>
United States	\$(68,807)	\$ (21,013)	\$ (136,900)
Foreign	(15,364)	(605)	(51,515)
Loss before income taxes	<u>\$(84,171)</u>	<u>\$(21,618)</u>	<u>\$(188,415)</u>

No provision for federal income taxes was recorded from inception through December 31, 2003 as the Company incurred net operating losses ("NOL") during this period.

State tax expense not based on income is included in loss from operations and the aggregated amount is immaterial for the years ended December 31, 2003, 2002 and 2001.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fiscal 2003, 2002 and 2001 income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 35% to pre-tax income as a result of the following for the years ended December 31 (in thousands):

	2003	2002	2001
Federal tax at statutory rate	\$(29,460)	\$(7,566)	\$(65,945)
State taxes	—	—	—
Domestic NOL not benefitted	21,798	7,302	47,857
Foreign NOL not benefitted	4,707	211	18,030
Meals and entertainment	28	53	46
Non-cash interest expense	2,666	—	—
Other	261	—	12
Total tax expense	\$ —	\$ —	\$ —

The types of temporary differences that give rise to significant portions of the Company's deferred tax assets and liabilities are set out below as of December 31 (in thousands):

	2003	2002
Deferred tax assets:		
Depreciation and amortization	\$ 35,957	\$ (4,246)
Reserves	3,131	36,352
Charitable contributions	4	—
Deferred compensation	9,179	—
Credits	114	211
Capitalized start-up costs	706	317
Net operating losses	18,184	542
Gross deferred tax assets	67,275	33,176
Valuation allowance	(67,275)	(33,176)
Total deferred tax assets	\$ —	\$ —

The Company's accounting for deferred taxes under SFAS No. 109 involves the evaluation of a number of factors concerning the realizability of the Company's deferred tax assets. To support the Company's conclusion that a 100% valuation allowance was required, the Company primarily considered such factors as the Company's history of operating losses, the nature of the Company's deferred tax assets and the absence of taxable income in prior carryback years. Although the Company's operating plans assume taxable and operating income in future periods, the Company's evaluation of all the available evidence in assessing the realizability of the deferred tax assets indicates that such plans are not considered sufficient to overcome the available negative evidence.

Federal and State tax laws, including California tax law, impose substantial restrictions on the utilization of net operating loss and credit carryforwards in the event of an "ownership change" for tax purposes, as defined in Section 382 of the Internal Revenue Code. The Company conducted an analysis to determine whether an ownership change had occurred due to the significant stock transactions in each of the reporting years disclosed. The analysis indicated that an ownership change occurred during the fiscal year 2002, which resulted in an annual limitation of approximately \$60,000, for the net operating loss carryforwards generated prior to 2003 and therefore, the Company has substantially reduced its federal and state net operating loss carryforwards for the period prior to 2003 to approximately \$1.2 million. Additionally, Section 382 of the Internal Revenue Code limits the Company's ability to utilize the tax deductions associated with its depreciable assets as of the end of

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the 2002 year to offset the taxable income in future years, due to the existence of a Net Unrealized Built-In Loss (“NUBIL”) at the time of the change in control. Such a limitation will be effective for a five-year period subsequent to the change in control through 2007.

The Company expects to pay a limited amount of tax for fiscal years 2004 and 2005. The tax costs will be primarily limited to alternative minimum taxes as the Company anticipates utilizing its net operating loss carryforwards and expects to have significant tax deductions attributable to stock options exercised in the years.

The Company has net operating loss carryforwards for U.S. income tax purposes of approximately \$36.9 million available to reduce future income subject to income taxes. The U.S. net operating loss carryforwards will begin to expire, if not utilized, in the year 2023. In addition, the Company had approximately \$20.5 million of net operating loss carryforwards available to reduce future taxable income for state income tax purposes. The majority of the state net operating loss carryforwards will begin to expire, if not utilized, in the year 2013.

11. Commitments and Contingencies

San Jose Ground Lease

In May 2000, the Company entered into a purchase agreement regarding approximately 80 acres of real property in San Jose, California. In June 2000, before closing on this property, the Company assigned its interest in the purchase agreement to a buyer and on the same date, this buyer purchased the property and entered into a 20-year lease with the Company for the property (the “San Jose Ground Lease”). Under the terms of the San Jose Ground Lease, the Company has the option to extend the lease for an additional 60 years, for a total lease term of 80 years. In addition, the Company has the option to purchase the property from the buyer on certain designated dates in the future. In September 2001, the Company amended the San Jose Ground Lease (the “First San Jose Ground Lease Amendment”). Previously, the Company posted a letter of credit in the amount of \$10,000,000 and was required to increase the letter of credit by \$25,000,000 to an aggregate of \$35,000,000 if the Company did not meet certain development and financing milestones. Pursuant to the terms of the First San Jose Ground Lease Amendment, the aggregate obligation was reduced by \$10,000,000 to \$25,000,000 provided the Company agreed to post an additional letter of credit totaling \$15,000,000 prior to September 30, 2001. In addition, the operating lease commitments, for the 12-month period ending September 2002, were reduced by \$3,000,000 provided the Company prepaid a full year of lease payments. The benefit of this reduction was amortized to rent expense over the full term of the lease. The additional letter of credit was funded prior to September 30, 2001 and the rent pre-payment was funded subsequent to September 30, 2001. These letter of credit security deposits were to be reduced on a pro rata basis based on the status of construction activity on this property.

In May 2002, the Company further amended the San Jose Ground Lease to provide the Company the option to reduce its obligation under this lease arrangement by up to approximately one-half (the “Second San Jose Ground Lease Amendment”). Pursuant to the terms of the Second San Jose Ground Lease Amendment, for a one-time fee of \$5,000,000, which was recorded as a restructuring charge (see Note 14), the Company had a one-year option, effective July 1, 2002, to elect to exclude from this lease anywhere from 20 to 40 acres of the unimproved real property. In September 2002, the Company exercised the option it had purchased in May 2002 and reduced its obligation under the San Jose Ground Lease by approximately one-half and entered into a further amendment of the San Jose Ground Lease (the “Third San Jose Ground Lease Amendment”), which became effective upon the closing of the Combination (see Note 2) and Financing (see Note 8). Pursuant to the terms of the Third San Jose Ground Lease Amendment, in connection with the exercise of the \$5,000,000 option, the landlord was permitted to unconditionally draw down on the \$25,000,000 in letters of credit. A portion of these letters of credit, totaling approximately \$5,990,000, was recorded as prepaid rent expense representing fair value of the lease costs for the 15-month period from October 1, 2002 to December 31, 2003. The prepaid rent represented the total payments that would have otherwise been paid during this period for the remaining one-half of the lease.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company amortized this prepaid rent expense ratably over the 15-month period. The remaining balance, approximately \$19,010,000, was written off and recorded as a restructuring charge as the Company was unable to recognize any future economic benefit attributed to the remaining balance of the letters of credit (see Note 14).

Operating Lease Terminations and Amendments

In February 2002, the Company entered into a termination agreement for its operating leasehold in Amsterdam, The Netherlands (the “Termination Agreement”). As stipulated in the Termination Agreement, the Company will surrender two previously-posted letters of credit totaling approximately \$4,814,000, which the Company had already fully written-off in conjunction with the restructuring charge that the Company recorded during the third quarter of 2001 (see Note 14). The first letter of credit was surrendered in March 2002 and the second letter of credit was surrendered in August 2002. The costs associated with terminating this leasehold were consistent with those that the Company estimated during the third quarter of 2001.

In February 2002, the Company entered into an agreement to surrender for its operating leasehold in London, England that was declared effective in March 2002 (the “Agreement to Surrender”). As stipulated in the Agreement to Surrender, the Company surrendered a previously-posted letter of credit totaling approximately \$822,000, which the Company had already fully written-off in conjunction with the restructuring charge that the Company recorded during the third quarter of 2001 (see Note 14) and issued a warrant to purchase 18,750 shares of the Company’s common stock at \$0.32 per share to the Company’s landlord (the “UK Warrant”). The UK Warrant was valued at \$702,000 using the Black-Scholes option-pricing model and has been recorded as an offset to accrued restructuring charges. The following assumptions were used in determining the fair value of the earned portion of this warrant: fair market value per share of \$37.76, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 4.00% and a contractual life of one year. The costs associated with terminating this leasehold were consistent with those that the Company estimated during the third quarter of 2001. In March 2003, this warrant was exercised with cash.

In April 2002, the Company entered into an agreement to exit its operating leasehold in Frankfurt, Germany (the “Lease Exit Agreement”). As stipulated in the Lease Exit Agreement, the Company surrendered a previously-posted letter of credit totaling approximately \$1,076,000, which the Company had already fully written-off in conjunction with the restructuring charge that the Company recorded during the third quarter of 2001 (see Note 14). As also stipulated in the Lease Exit Agreement, the Company additionally agreed to (1) pay rent through May 2002, (2) pay cash settlement fees totaling approximately \$1,845,000 and (3) issued a warrant to purchase 35,938 shares of the Company’s common stock at \$0.32 per share to the Company’s landlord in Frankfurt (the “Frankfurt Warrant”). The Frankfurt Warrant was valued at \$725,000 using the Black-Scholes option-pricing model and has been recorded as an offset to accrued restructuring charges. The following assumptions were used in determining the fair value of the earned portion of this warrant: fair market value per share of \$20.48, dividend yield of 0%, expected volatility of 80%, risk-free interest rate of 4.00% and a contractual life of one year. In May 2002, this warrant was exercised with cash.

In July 2002, the Company finalized its agreement to exit one of its excess U.S. operating leaseholds in Mountain View, California, adjacent to the Company’s headquarters (the “Excess Headquarter Lease Termination”). As stipulated in the Excess Headquarter Lease Termination, the Company agreed to pay rent through July 2002 and to waive any rights to any remaining personal property on the premises beyond a specified date. During the quarter ended June 30, 2002, the Company wrote-off all property and equipment located in this excess office space, primarily leasehold improvements and some furniture and fixtures, totaling \$1,552,000. This was included in the restructuring charges recorded during 2002 (see Note 14).

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In October 2002, the Company amended the lease for its headquarters in Mountain View, California (the “First Amendment to HQ Lease”). Pursuant to the First Amendment to HQ Lease, the Company was granted the option to terminate the leasehold in exchange for a termination fee of \$924,000. The Company paid this fee and exercised this option in October 2002. Provided the Company complies with the terms of the First Amendment to HQ Lease, including the timely payment of its lease obligations for six months, the Company will be permitted to terminate the lease without further penalty and will be entitled to a discharge fee equal to \$924,000 at the time the premises are vacated. In March 2003, the Company terminated this lease, received the discharge fee and moved into new headquarter facilities in Foster City, California.

In October 2002, the Company amended its lease for its Secaucus IBX hub (the “Second Amendment to the Secaucus IBX Lease”). Pursuant to the terms of the Second Amendment to the Secaucus IBX Lease, commencing October 1, 2002 and expiring March 31, 2004, a portion of the base rent otherwise due for the period will be deferred until January 2005. Commencing January 1, 2005, the portion of the base rent deferred, plus interest calculated thereon, will be repaid to the Secaucus landlord in 36 equal payments ending December 1, 2007. Furthermore, with respect to this operating lease, the landlord has the right to expand the Company’s rentable space by approximately half at such time as the current tenant of that portion of the property’s lease expires, which is on December 31, 2004. As a result, commencing fiscal 2005, the Company expects that its total rent expense associated with this IBX hub could double. The Company is currently working with this landlord, as well as the current tenant of that space, and expects to minimize this additional cost to the Company; however, there can be no assurances that the Company will be successful in reducing this commitment.

In October 2003, a wholly-owned subsidiary of the Company entered into an asset sale agreement with an affiliated company of STT Communications (the “Buyer”), which is also a current customer of Equinix, in which (a) the Company exited from its IBX hub lease in Singapore that the Company acquired in the Pihana Acquisition (the “Pihana Singapore IBX Hub”) effective September 30, 2003, (b) the Buyer has entered into a new lease agreement directly with the landlord for the Pihana Singapore IBX Hub, (c) the Company sold the related assets located in and transferred certain agreements related to the operations of the Pihana Singapore IBX Hub to the Buyer for one Singapore dollar, (d) the Company contemporaneously entered into a separate colocation agreement for a smaller portion of space in the Pihana Singapore IBX Hub for 60 months in which the Company will be the customer of the Buyer and (e) the Buyer has agreed to procure additional IBX hub services in the Company’s other Singapore IBX hub that it acquired in the i-STT Acquisition (the “Singapore Asset Sale Agreement”). As a result of the Singapore Asset Sale Agreement, the Company surrendered several deposits related to the Pihana Singapore IBX Hub; however, this loss was offset by the write-off of the associated deferred rent and asset retirement obligation liabilities associated with the Pihana Singapore IBX Hub resulting in a nominal loss on asset sale of \$18,000. As a result of this transaction, the Company has only one primary IBX hub in Singapore (the one acquired in the i-STT Acquisition) rather than two.

Operating Lease Commitments

The Company leases its IBX hubs and certain equipment under noncancelable operating lease agreements expiring through 2020. 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 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.

EQUINIX, INC.**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

Minimum future operating lease payments as of December 31, 2003 are summarized as follows (in thousands):

Year ending:	
2004	\$ 28,339
2005	31,072
2006	31,900
2007	32,330
2008	31,806
Thereafter	201,137
Total	<u>\$356,584</u>

Total rent expense was approximately \$28,646,000, \$25,193,000 and \$27,150,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Deferred rent, primarily included in deferred rent and other liabilities on the accompanying balance sheets, was \$20,283,000 and \$13,420,000 as of December 31, 2003 and 2002, respectively.

Capital Expenditures

In September 2003, a wholly-owned subsidiary of the Company entered into a new customer contract which required expansion of the Singapore IBX hub acquired in the i-STT Acquisition (the "Singapore Customer Contract"). The Singapore Customer Contract requires that this incremental space be available for service by the end of February 2004, otherwise the Company will be required to pay damages of 2,000 Singapore dollars per day up to a maximum of 60 days or 120,000 Singapore dollars (approximately \$71,000 as translated using effective exchange rates at December 31, 2003) to this customer. In order for the Company to meet the requirements of the Singapore Customer Contract, it will need to spend approximately \$3.5 million in capital expenditures to prepare a new floor of the Singapore IBX hub for this customer. As of December 31, 2003, the Company had incurred approximately \$2.5 million of capital expenditures related to this project and incurred an additional \$1.0 million during January 2004. This project was completed in January 2004.

As a result of the Santa Clara IBX Acquisition (see Note 3), the Company expects to spend approximately \$3.0 to \$5.0 million in capital expenditures to bring this recently-acquired IBX hub to Equinix standards during the first half of 2004.

Legal Actions

During the quarter ended September 30, 2001, putative shareholder class action lawsuits were filed against the Company, certain of its officers and directors, and several investment banks that were underwriters of the Company's initial public offering. The cases were filed in the United States District Court for the Southern District of New York, purportedly on behalf of investors who purchased the Company's stock between August 10, 2000 and December 6, 2000. 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. It is possible that additional similar complaints may also be filed. In July 2003, a Special Litigation Committee of the Equinix Board of Directors agreed to participate in a settlement with the plaintiffs that is anticipated to include most of the approximately 300 defendants in similar actions. This settlement agreement is subject to court approval and

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

sufficient participation by all defendants in similar actions. Such settlement includes without limitation a guarantee of payments to the plaintiffs in the lawsuits, assignment of certain claims against the underwriters in the Company's IPO to the plaintiffs, and a dismissal of all claims against Equinix and related individuals. Other than legal fees incurred to date, the Company expects that all expenses of settlement, if any, will be paid by the Company's insurance carriers. Until such settlement is finalized, the Company and its officers and directors intend to continue to defend the actions vigorously. The Company believes it has adequate legal defenses and believes that the ultimate outcome of these actions will not have a material effect on the Company's consolidated financial position, results of operations or cash flows, although there can be no assurance as to the outcome of such litigation. Furthermore, no range of loss can be estimated at this time.

Under the Wells Fargo Loan (see Note 5), the Company was required to maintain a minimum cash balance at all times. As of June 30, 2002, the Company was not in compliance with this requirement. Wells Fargo filed a lawsuit against the company seeking to force the Company to obtain a letter of credit in the full amount of the outstanding balance of the Wells Fargo loan. In February 2003, as part of a settlement agreement with Wells Fargo, the Company made a payment to Wells Fargo of approximately \$1.7 million in full satisfaction of all amounts owed to Wells Fargo under this loan agreement. As part of the same agreement, the lawsuit has been dismissed and the loan agreement has been terminated.

Estimated and Contingent Liabilities

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

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

Employment Agreements

The Company has agreed to indemnify an officer of the Company for any claims brought by his former employer under an employment and non-compete agreement the officer had with this employer. As of December 31, 2003, no claims had been made by the former employer.

In August 2002, the Company entered into severance agreements with certain of its executive officers. Under the terms of the agreements, the officers are entitled to one year's salary, bonus and certain healthcare benefits in the event of an involuntary termination for reasons other than cause.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Employee Benefit Plan

The Company has a 401(k) Plan that allows eligible employees to contribute up to 15% of their compensation, limited to \$12,000 in 2003. Employee contributions and earnings thereon vest immediately. Although the Company may make discretionary contributions to the 401(k) Plan, no contributions have ever been made as of December 31, 2003.

Guarantor Arrangements

In November 2002, the FASB issued FIN No. 45 “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34 (“FIN 45”). FIN 45 requires that a guarantor recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken by issuing the guarantee. FIN 45 also requires additional disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees it has issued. The accounting requirements for the initial recognition of guarantees are applicable on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for all guarantees outstanding, regardless of when they were issued or modified, during the first quarter of fiscal 2003. The following is a summary of the agreements that the Company has determined are within the scope of FIN 45.

As permitted under Delaware law, the Company has agreements whereby the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company’s request in such capacity. The term of the indemnification period is for the officer’s or director’s lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a director and officer insurance policy that limits the Company’s exposure and enables the Company to recover a portion of any future amounts paid. As a result of the Company’s insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. The majority of these indemnification agreements were grandfathered under the provisions of FIN 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no significant liabilities recorded for these agreements as of December 31, 2003.

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company’s business partners or customers, in connection with any U.S. patent, or any copyright or other intellectual property infringement claim by any third party with respect to the Company’s services. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. The majority of these indemnification agreements were grandfathered under the provisions of FIN 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no significant liabilities recorded for these agreements as of December 31, 2003.

The Company enters into arrangements with its business partners, whereby the business partner agrees to provide services as a subcontractor for the Company’s implementations. The Company may, at its discretion and in the ordinary course of business, subcontract the performance of any of its services. Accordingly, the Company enters into standard indemnification agreements with its customers, whereby the Company indemnifies them for other acts, such as personal property damage, of its subcontractors. The maximum potential amount of future

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has general and umbrella insurance policies that enable the Company to recover a portion of any amounts paid. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. The majority of these arrangements were grandfathered under the provisions of FIN 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no significant liabilities recorded for these agreements as of December 31, 2003.

The Company has service level commitment obligations to certain of its customers. As a result, service interruptions or significant equipment damage in the Company's IBX hubs, whether or not within our control, could result in service level commitments to these customers. The Company's liability insurance may not be adequate to cover those expenses. In addition, any loss of services, equipment damage or inability to meet the Company's service level commitment obligations, particularly in the early stage of the Company's development, could reduce the confidence of the Company's customers and could consequently impair the Company's ability to obtain and retain customers, which would adversely affect both the Company's ability to generate revenues and the Company's operating results. Historically, these service level credits have not been significant. Accordingly, the Company has no significant liabilities for these agreements as of December 31, 2003.

Under the terms of the Combination Agreement, the Company was contractually obligated to use the Company's reasonable best efforts to obtain the release of STT Communications from a bank guarantee associated with i-STT's unconsolidated Thailand joint venture, i-STT Nation Limited. Such efforts included i-STT assuming such guarantee if it was commercially reasonable to do so. This guarantee was for 60% of a Thai baht 260,000,000 bank loan (approximately \$6,188,000 as translated using effective exchange rates at June 30, 2003), of which Thai baht 58,300,000 was outstanding as of June 30, 2003 (approximately \$1,388,000 as translated using effective exchange rates at June 30, 2003) (the "Thai Bank Loan"). In July 2003, the Company, STT Communications and their Thailand joint venture partner, Nation Digital Media Ltd. ("Nation Digital"), entered into an agreement to wind-down i-STT Nation Limited (the "Thailand Joint Venture Wind-Down Agreement"). Under the terms of the Thailand Joint Venture Wind-Down Agreement, Nation Digital obtained title to all assets of i-STT Nation Limited; STT Communications agreed to assume 100% of the Thai Bank Loan; and STT Communications and the Company agreed to fund the wind-down costs of i-STT Nation Limited. As of December 31, 2003, the Thai Bank Loan was repaid in full by STT Communications and the Company has funded its portion of wind-down costs, and the wind-down effort was completed as of December 31, 2003 (see Note 2).

Under the terms of the Combination Agreement, the Company is contractually obligated to use commercially reasonable efforts to ensure that at all times from and after the closing of the Combination, until such time as neither STT Communications nor its affiliates hold the Company's capital stock or debt securities (or the capital stock received upon conversion of the debt securities) received by STT Communications in connection with the Combination, that none of the Company's capital stock issued to STT Communications is constituted as "United States real property interests" within the meaning of Section 897(c) of the Internal Revenue Code of 1986. Under Section 897(c) of the Code, the Company's capital stock issued to STT Communications would generally constitute "United States real property interests" at such point in time that the fair market value of the "United States real property interests" owned by the Company equals or exceeds 50% of the sum of the aggregate fair market values of (a) the Company's "United States real property interests," (b) the Company's interests in real property located outside the U.S., and (c) any other assets held by the Company which are used or held for use in the Company's trade or business. The Company refers to this provision in the Combination Agreement as the FIRPTA covenant. Pursuant to the FIRPTA covenant, the Company may be forced to take commercially reasonable proactive steps to ensure the Company's compliance with the FIRPTA covenant, including, but not limited to, (a) a sale-leaseback transaction with respect to all real property interests,

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

or (b) the formation of a holding company organized under the laws of the Republic of Singapore which would issue shares of its capital stock in exchange for all of the Company's outstanding stock (this reorganization would require the submission of that transaction to the Company's stockholders for their approval and the consummation of that exchange). Currently, the Company is in compliance with the FIRPTA covenant. This arrangement was grandfathered under the provisions of FIN 45 as it was in effect prior to December 31, 2002. Accordingly, the Company has no liabilities recorded related to non-compliance with the FIRPTA covenant as of December 31, 2003.

When as part of an acquisition the Company acquires all of the stock or all of the assets and liabilities of a company, the Company assumes the liability for certain events or occurrences that took place prior to the date of acquisition. The maximum potential amount of future payments the Company could be required to make for such obligations is undeterminable at this time. The only acquisitions that the Company has made to date in which it acquired all the stock or all of the assets and liabilities of a company was in connection with the Combination. All of these obligations were grandfathered under the provisions of FIN No. 45 as they were in effect prior to December 31, 2002. Accordingly, the Company has no liabilities recorded for these liabilities as of December 31, 2003.

12. Related Party Transactions

Officer Loans

Through December 31, 2001 the Company advanced \$3,562,000 to five officers of the Company, including a loan to the Company's chief executive officer totaling \$1,512,000. All such officer loans were evidenced by promissory notes. The proceeds of these loans were used to fund the purchase of personal residences for officers who had relocated from out of state to work for the Company. The loans were due at various dates through 2006, but were subject to certain events of acceleration and were secured by a second deed of trust on the officers' residences. The loans were non-interest bearing. In October 2001, one of these loans totaling \$150,000 was repaid in full in conjunction with an officer leaving the Company.

In January 2002, the Board of Directors forgave \$874,000 of the chief executive officer's employee loan totaling \$1,512,000 in exchange for the chief executive officer waiving his right to any bonuses earned and expensed in 2001. The remaining amount due under the loan of \$638,000 was repaid to the Company in full in February 2002. Furthermore, the Company negotiated with two other executive officers of the Company to repay their loans in full totaling \$1,000,000. In exchange, the Company agreed to pay a portion of the interest on the officer's mortgage for their principal residence for a 24-month period. One of these loans totaling \$750,000 was repaid in full in February 2002 and the second loan totaling \$250,000 was repaid in full in March 2002.

In September 2002, the Company negotiated with a non-executive officer of the Company for early repayment of the last remaining officer loan totaling \$900,000. A portion of the loan was forgiven to compensate the employee for related out-of-pocket costs of sale of the residence. The remaining amount, totaling \$700,000, due under the loan was repaid to the Company in October 2002.

No officer or employee loans existed as of December 31, 2003 or 2002.

Transactions with Affiliates of STT Communications

As a result of the Combination, the Company acquired operations in Asia-Pacific. The majority of the Company's Asia-Pacific revenues are generated in Singapore and a significant portion of the business in Singapore is transacted with entities affiliated with STT Communications, which is the Company's single largest

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

stockholder. For the year ended December 31, 2003, revenues recognized with entities affiliated with STT Communications were \$6,946,000, and as of December 31, 2003, accounts receivable with entities affiliated with STT Communications was \$1,393,000. For the year ended December 31, 2003, costs and services procured with entities affiliated with STT Communications were \$481,000, and as of December 31, 2003, accounts payable with entities affiliated with STT Communications was \$139,000. Furthermore, during 2003, the Company entered into an agreement with STT Communications to wind-down the Company's Thailand joint venture (see Note 11). In October 2003, the Company entered into an asset sale agreement with an affiliate of STT Communications (see Note 11).

Other Revenue Transactions

In February and March 2002, the Company entered into two agreements to resell equipment with related party companies. Both related party companies have executive officers that serve on the Company's Board of Directors, and one of the related party company executive officers also serves on the board of directors of such company. In addition, one of the companies was also a 5% or greater stockholder in the Company as of that date. Revenue recognized during 2002 from such equipment reseller agreements totaled approximately \$2,936,000.

For the year ended December 31, 2001, Loudcloud, Inc. ("Loudcloud") was the Company's second largest customer. Revenues from Loudcloud amounted to \$5,105,000, which represented 8% of the Company's total revenues for fiscal 2001. Andrew S. Rachleff, one of the Company's directors, is a co-founder and general partner of Benchmark Capital. Benchmark Capital was a greater than 5% stockholder of Loudcloud, and Mr. Rachleff served on the Board of Directors of Loudcloud at the time. Subsequent to December 31, 2001, Loudcloud changed its name to Opsware, Inc. and sold its Equinix-related operations to Electronic Data Systems ("EDS"). As a result, Equinix now contracts its services to EDS.

13. Segment Information

The Company and its subsidiaries are principally engaged in the design, build-out and operation of neutral IBX hubs. All revenues result from the operation of these IBX hubs. 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 consolidated financial statements.

Due to the Combination (see Note 2), the Company acquired operations in Asia-Pacific effective December 31, 2002. As a result, the Company's consolidated balance sheets as of December 31, 2003 and 2002, includes certain assets based in Asia-Pacific. In addition, commencing in fiscal 2003, the Company's consolidated statement of operations includes revenues and expenses from Asia-Pacific. In September 2001, the Company recorded a restructuring charge, primarily related to the Company's revised European strategy, and as a result, wrote-off all of the Company's European long-lived assets and began the process of winding down its development stage European operations (see Note 14).

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company's geographic statement of operations disclosures are as follows for the years ended December 31 (in thousands):

	2003	2002	2001
Total revenues:			
United States	\$ 99,669	\$ 77,188	\$ 63,414
Asia-Pacific	18,273	—	—
	<u>\$ 117,942</u>	<u>\$ 77,188</u>	<u>\$ 63,414</u>
Cost of revenues:			
United States	\$ 107,477	\$ 104,355	\$ 89,908
Asia-Pacific	20,644	—	—
Europe	—	(282)	4,981
	<u>\$ 128,121</u>	<u>\$ 104,073</u>	<u>\$ 94,889</u>
Loss from operations:			
United States	\$ (48,621)	\$ (101,014)	\$ (103,118)
Asia-Pacific	(15,334)	—	—
Europe	—	(662)	(52,143)
	<u>\$(63,955)</u>	<u>\$(101,676)</u>	<u>\$(155,261)</u>

The Company's long-lived assets are located in the following geographic areas as of December 31 (in thousands):

	2003	2002
United States	\$343,419	\$389,369
Asia-Pacific	34,825	39,139
	<u>\$378,244</u>	<u>\$ 428,508</u>

The Company's goodwill totaling \$21,228,000 and \$21,081,000 as of December 31, 2003 and 2002, respectively, is part of the Company's Singapore reporting unit, which is reported within the Asia-Pacific segment.

14. Restructuring Charges

2001 Restructuring Charge

During the quarter ended September 30, 2001, the Company revised its European services strategy through the development of new partnerships with other leading international Internet exchange partners rather than build and operate its own European IBX hubs. In addition, the Company initiated efforts to exit certain leaseholds relating to certain excess U.S. operating leases. Also, in September 2001, the Company implemented an approximate 15% reduction in workforce, primarily in headquarter positions, in an effort to reduce operating costs, which resulted in approximately \$5.6 million in annual savings. As a result, the Company took a total restructuring charge of \$48,565,000 primarily related to the write-down of European construction in progress assets to their net realizable value, the write-off of several European letters of credit related to various European operating leases, the accrual of estimated European and U.S. leasehold exit costs and the severance accrual related to the reduction in workforce. The remaining European assets as of December 31, 2001, totaling \$2,234,000, represented assets purchased during pre-construction activities that were held for resale and sold

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

during 2002. As of December 31, 2001, the Company had successfully surrendered one of the European leases. The Company completed the exit of the remaining European leases and one of the U.S. leases during 2002 (see Note 11). The collective costs of these European exit activities, primarily the exit of the German leasehold and an additional loss incurred on the sale of the European assets held for resale, exceeded the amount estimated by management during the third quarter of 2001. As a result, the Company recorded an additional restructuring charge during the second quarter of 2002 (see 2002 Restructuring Charges below). The reduction in workforce was substantially completed during the fourth quarter of 2001.

A summary of the movement in the 2001 restructuring charge accrual for the year ended December 31, 2003 is outlined as follows (in thousands):

	Accrued restructuring charge as of December 31, 2002	Non-cash charges	Cash payments	Accrued restructuring charge as of December 31, 2003
U.S. lease exit costs	\$ 810	\$ —	\$ (768)	\$ 42
	<u>\$ 810</u>	<u>\$ —</u>	<u>\$ (768)</u>	<u>\$ 42</u>

The remaining activities will be paid during 2004.

A summary of the movement in the 2001 restructuring charge accrual for the year ended December 31, 2002 is outlined as follows (in thousands):

	Accrued restructuring charge as of December 31, 2001	Non-cash charges	Cash payments	Accrued restructuring charge as of December 31, 2002
European exit costs	\$ 4,606	(2,492)	(2,114)	\$ —
U.S. lease exit costs	1,512	—	(702)	810
Workforce reduction	272	—	(272)	—
	<u>\$ 6,390</u>	<u>\$ (2,492)</u>	<u>\$ (3,088)</u>	<u>\$ 810</u>

A summary of the 2001 restructuring charge through December 31, 2001 is outlined as follows (in thousands):

	Total 2001 restructuring charge	Non-cash charges	Cash payments	Accrued restructuring charge as of December 31, 2001
Write-down of European construction in progress	\$ 29,260	\$(29,260)	\$ —	\$ —
Write-off of European letters of credit	8,634	(8,634)	—	—
European exit costs	7,421	(2,059)	(756)	4,606
U.S. lease exit costs	2,000	—	(488)	1,512
Workforce reduction	1,250	(134)	(844)	272
	<u>\$ 48,565</u>	<u>\$ (40,087)</u>	<u>\$ (2,088)</u>	<u>\$ 6,390</u>

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2002 Restructuring Charges

During the quarter ended June 30, 2002, the Company took a second restructuring charge to reflect the Company's ongoing efforts to exit or amend several unnecessary U.S. IBX expansion and headquarter office space operating leaseholds and to complete the Company's European exit activities. In addition, in May 2002, the Company implemented a reduction in workforce of less than 10%, primarily in headquarter positions, in an effort to reduce operating costs. As a result, the Company took a total restructuring charge of \$9,950,000, primarily related to the Second San Jose Ground Lease option fee of \$5,000,000 (see Note 11); the write-off of property and equipment, primarily leasehold improvements and some equipment, located in two unnecessary U.S. IBX expansion and headquarter office space operating leaseholds that the Company decided to exit and that do not currently provide any ongoing benefit; the write-off of two U.S. letters of credit related to one U.S. operating leasehold from which the Company has committed to exit; an accrual for the remaining estimated European exit costs and additional U.S. leasehold exit costs and the severance accrual related to the reduction in workforce. The Company continues to work on an exit plan for the excess U.S. operating lease and expects to complete the exit of this U.S. operating lease during 2004. Should it take longer to negotiate the exit of the remaining U.S. lease or the lease settlement amounts exceed the amounts estimated by management, the actual U.S. lease exit cost could exceed the amount estimated and additional restructuring charges may be required. The reduction in workforce was substantially completed during the second quarter of 2002.

During the quarter ended September 30, 2002, the Company recorded an additional restructuring charge as a result of the Third San Jose Ground Lease Amendment (see Note 11). As a result, the Company released its letters of credit relating to the San Jose Ground Lease and recorded a restructuring charge of \$19,010,000.

During the fourth quarter ended December 31, 2002, the Company recorded an additional restructuring charge as a result of a small reduction in workforce in headquarter positions offset by the reversal of the previous write-down of one of the letters of credit recorded in conjunction with the second quarter 2002 restructuring charge noted above. Based on further negotiation with the landlord, both parties agreed that the letter of credit will be left intact. The reduction in workforce was substantially completed in January 2003.

The reductions in workforce undertaken in the second and fourth quarters of 2002, which represented a less than 10% reduction in workforce primarily in the Company's headquarter functions, resulted in approximately \$2.8 million of annual savings.

A summary of the movement in the 2002 restructuring charges accrual from December 31, 2002 to December 31, 2003 is outlined as follows (in thousands):

	Accrued restructuring charge as of December 31, 2002	Non-cash charges	Cash payments	Accrued restructuring charge as of December 31, 2003
Additional lease exit costs	\$ 392	\$ —	\$ (214)	\$ 178
Workforce reductions	456	—	(456)	—
	<u>\$ 848</u>	<u>\$ —</u>	<u>\$ (640)</u>	<u>\$ 178</u>

The remaining activities will be paid during 2004.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A summary of the 2002 restructuring charges through December 31, 2002 is outlined as follows (in thousands):

	Total 2002 restructuring charges	Non-cash charges	Cash payments	Accrued restructuring charge as of December 31, 2002
San Jose ground lease option fee	\$ 5,000	\$ —	\$ (5,000)	\$ —
Write-off of U.S. property and equipment	2,585	(2,585)	—	—
Additional lease exit costs	1,115	—	(723)	392
Write-off of two U.S. letters of credit	750	(750)	—	—
Workforce reduction	500	—	(469)	31
Second quarter subtotal	9,950	(3,335)	(6,192)	423
Write-off of San Jose ground lease letters of credit	19,010	(19,010)	—	—
Third quarter subtotal	19,010	(19,010)	—	—
Workforce reduction	425	—	—	425
Write-up of one U.S. letter of credit	(500)	500	—	—
Fourth quarter subtotal	(75)	500	—	425
	\$ 28,885	\$ (21,845)	\$ (6,192)	\$ 848

Acquired Restructuring Charges

As a result of the Combination, the Company acquired several accruals related to restructuring activities from both i-STT and Pihana, which were commenced in 2002. As of December 31, 2003, a total of \$608,000 remains accrued for these restructuring activities, which will be paid in 2004 (see Note 2).

15. Subsequent Events

On January 1, 2004, pursuant to the provisions of the Company's stock plans (see Note 9), the number of common shares in reserve automatically increased by 905,066 shares for the 2000 Equity Incentive Plan, 301,689 shares for the Employee Stock Purchase Plan and 50,000 shares for the 2000 Director Stock Option Plan.

On February 11, 2004, the Company sold \$75,000,000 in aggregate principal of 2.5% convertible subordinated debentures due 2024 to qualified institutional buyers. Subsequently, on February 18, 2004, the Company sold an additional \$11,250,000 of these debentures to the initial purchasers of the debentures, which brought total gross proceeds from this offering to \$86,250,000. The Company used or intends to use the net proceeds from this offering to repay all amounts outstanding under the Credit Facility (see Note 6), the VLL Loan Amendment and the Heller Loan Amendment (see Note 5). In addition, the Company intends to use additional proceeds received to redeem all remaining Senior Notes (see Note 7). The Company has exercised its right to redeem all of the Senior Notes, which have a total of \$30.5 million of principal outstanding as of December 31, 2003, and has sent a notice of redemption to the trustee. The effective date of the redemption is expected to be March 12, 2004. The redemption price for the Senior Notes will be equal to 106.5% of their principal amount plus accrued and unpaid interest to the redemption date. All remaining proceeds will be used for general corporate purposes. The Company expects to record a significant loss on debt extinguishment during the quarter ended March 31, 2004, primarily related to the non-cash write-off of debt issuance costs and discounts in connection with these various debt repayments and redemptions, as well as the cash premium we

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

will pay on our Senior Notes. The Company refers to this transaction as the convertible debenture offering (the “Convertible Debenture Offering”).

In February 2004, the Compensation Committee of the Board of Directors granted options to certain employees, including all officers of the Company, to purchase 995,000 shares of common stock at a weighted average exercise price of \$28.56 per share under the Plans (see Note 9).

EQUINIX, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
QUARTERLY FINANCIAL INFORMATION (Unaudited)

The Company believes that period-to-period comparisons of its financial results should not be relied upon as an indication of future performance. The Company's revenues and results of operations have been subject to significant fluctuations, particularly on a quarterly basis, and the Company's revenues and results of operations could fluctuate significantly quarter-to-quarter and year-to-year. Significant quarterly fluctuations in revenues will cause significant fluctuations in our cash flows and the cash and cash equivalents and accounts receivable accounts on the Company's balance sheet. Causes of such fluctuations may include the volume and timing of new orders and renewals, the sales cycle for our services, the introduction of new services, changes in service prices and pricing models, trends in the Internet infrastructure industry, general economic conditions, extraordinary events such as acquisitions or litigation and the occurrence of unexpected events.

The unaudited quarterly financial information presented below has been prepared by the Company and reflects all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to present fairly the financial position and results of operations for the interim periods presented.

The following table presents selected quarterly information for fiscal 2003, 2002 and 2001:

	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>
	(in thousands, except per share data)			
2003:				
Revenues	\$ 25,435	\$ 28,434	\$ 30,919	\$ 33,154
Net loss	(25,553)	(21,203)	(19,718)	(17,697)
Basic and diluted net loss per share	(3.00)	(2.44)	(2.12)	(1.49)
2002:				
Revenues	\$ 20,158	\$ 18,040	\$ 20,187	\$ 18,803
Net income (loss)	(13,694)	(24,557)	(44,088)	60,721
Basic net income (loss) per share	(5.16)	(7.94)	(14.04)	19.14
Diluted net income (loss) per share	(5.16)	(7.94)	(14.04)	18.12
2001:				
Revenues	\$ 12,613	\$ 16,157	\$ 17,178	\$ 17,466
Net loss	(41,537)	(37,857)	(81,574)	(27,447)
Basic and diluted net loss per share	(17.40)	(15.52)	(33.01)	(10.90)

INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Description of Document</u>
2.1(8)	Combination Agreement, dated as of October 2, 2002, by and among Equinix, Inc., Eagle Panther Acquisition Corp., Eagle Jaguar Acquisition Corp., i-STT Pte Ltd, STT Communications Ltd., Pihana Pacific, Inc. and Jane Dietze, as representative of the stockholders of Pihana Pacific, Inc.
3.1(10)	Amended and Restated Certificate of Incorporation of the Registrant, as amended to date.
3.2(10)	Certificate of Designation of Series A and Series A-1 Convertible Preferred Stock.
3.3(9)	Bylaws of the Registrant.
3.4(13)	Certificate of Amendment of the Bylaws of the Registrant.
4.1	Reference is made to Exhibits 3.1, 3.2, 3.3 and 3.4.
4.2(2)	Form of Registrant's Common Stock certificate.
4.6(1)	Common Stock Registration Rights Agreement (See Exhibit 10.3).
4.9(1)	Amended and Restated Investors' Rights Agreement (See Exhibit 10.6).
4.10(9)	Registration Rights Agreement (See Exhibit 10.75).
10.1(1)	Indenture, dated as of December 1, 1999, by and among the Registrant and State Street Bank and Trust Company of California, N.A. (as trustee).
10.2(1)	Warrant Agreement, dated as of December 1, 1999, by and among the Registrant and State Street Bank and Trust Company of California, N.A. (as warrant agent).
10.3(1)	Common Stock Registration Rights Agreement, dated as of December 1, 1999, by and among the Registrant, Benchmark Capital Partners II, L.P., Cisco Systems, Inc., Microsoft Corporation, ePartners, Albert M. Avery, IV and Jay S. Adelson (as investors), and the Initial Purchasers.
10.5(1)	Form of Indemnification Agreement between the Registrant and each of its officers and directors.
10.6(1)	Amended and Restated Investors' Rights Agreement, dated as of May 8, 2000, by and between the Registrant, the Series A Purchasers, the Series B Purchasers, the Series C Purchasers and members of the Registrant's management.
10.8(1)	The Registrant's 1998 Stock Option Plan.
10.9(1)+	Lease Agreement with Carlyle-Core Chicago LLC, dated as of September 1, 1999.
10.10(1)+	Lease Agreement with Market Halsey Urban Renewal, LLC, dated as of May 3, 1999.
10.11(1)+	Lease Agreement with Laing Beaumeade, dated as of November 18, 1998.
10.12(1)+	Lease Agreement with Rose Ventures II, Inc., dated as of June 10, 1999.
10.13(1)+	Lease Agreement with Carrier Central LA, Inc., as successor in interest to 600 Seventh Street Associates, Inc., dated as of August 8, 1999.
10.14(1)+	First Amendment to Lease Agreement with TrizecHahn Centers, Inc. (dba TrizecHahn Beaumeade Corporate Management), dated as of October 28, 1999.
10.15(1)+	Lease Agreement with Nexcomm Asset Acquisition I, L.P., dated as of January 21, 2000.
10.16(1)+	Lease Agreement with TrizecHahn Centers, Inc. (dba TrizecHahn Beaumeade Corporate Management), dated as of December 15, 1999.
10.20(1)+	Agreement between Equinix, Inc. and WorldCom, Inc., dated November 16, 1999.
10.21(1)	Customer Agreement between Equinix, Inc. and WorldCom, Inc., dated November 16, 1999.
10.23(1)	Purchase Agreement between International Business Machines Corporation and Equinix, Inc. dated May 23, 2000.
10.24(2)	2000 Equity Incentive Plan.

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.25(2)	2000 Director Option Plan.
10.26(2)	2000 Employee Stock Purchase Plan.
10.27(2)	Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated June 21, 2000.
10.28(3)+	Lease Agreement with TrizecHahn Beaumeade Technology Center LLC, dated as of July 1, 2000.
10.29(3)+	Lease Agreement with TrizecHahn Beaumeade Technology Center LLC, dated as of May 1, 2000.
10.30(3)+	Lease Agreement with Carrier Central LA, Inc., as successor in interest to 600 Seventh Street Associates, Inc., dated as of August 24, 2000.
10.31(3)+	Lease Agreement with Burlington Associates III Limited Partnership, dated as of July 24, 2000.
10.42(4)+	First Amendment to Deed of Lease with TrizecHahn Beaumeade Technology Center LLC, dated as of March 22, 2001.
10.43(4)+	First Lease Amendment Agreement with Market Halsey Urban Renewal, LLC, dated as of May 23, 2001.
10.44(4)+	First Amendment to Lease with Nexcomm Asset Acquisition I, L.P., dated as of April 18, 2000.
10.45(4)+	Amendment to Lease Agreement with Burlington Realty Associates III Limited Partnership, dated as of December 18, 2000.
10.46(5)	First Modification to Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated as of September 26, 2001.
10.48(5)	2001 Supplemental Stock Plan.
10.53(6)	Second Modification to Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated as of May 20, 2002.
10.54(6)+	Amended and Restated Master Service Agreement by and between International Business Machines Corporation and Equinix, Inc., dated as of May 1, 2002.
10.56(7)+	Second Amendment to Lease Agreement with Burlington Realty Associates III Limited Partnership, dated as of October 1, 2002.
10.58(7)	Form of Severance Agreement entered into by the Company and each of the Company's executive officers.
10.59(9)	Second Amended and Restated Credit and Guaranty Agreement, dated as of December 31, 2002.
10.60(9)	Governance Agreement by and among Equinix, Inc., STT Communications Ltd., i-STT Communications Ltd., STT Investments Pte Ltd and the Pihana Pacific stockholder named therein, dated as of December 31, 2002.
10.61(9)	Tenancy Agreement over units #06-01, #06-05, #06-06, #06-07 and #06-08 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.62(9)	Tenancy Agreement over units #05-05, #05-06, #05-07 and #05-08 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.63(9)	Tenancy Agreement over units #03-01 and #03-02 of Block 28 Ayer Rajah Crescent, Singapore 139959.
10.64(9)	Tenancy Agreement over units #05-01, #05-02, #05-03 and #05-04 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.65(9)	Tenancy Agreement over units #03-05, #03-06, #03-07 and #03-08 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.69(9)	Lease Agreement with Downtown Properties, LLC dated April 10, 2000, as amended.
10.70(9)	Lease Agreement with Comfort Development Limited dated November 10, 2000.
10.71(9)	Lease Agreement with PacEast Telecom Corporation dated June 15, 2000, as amended.

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<u>Exhibit Number</u>	<u>Description of Document</u>
10.72(9)	Lease Agreement Lend Lease Real Estate Investments Limited dated October 20, 2000.
10.73(9)	Lease Agreement with AIPA Properties, LLC dated November 1, 1999, as amended.
10.74(9)	Third Modification to Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated as of September 30, 2002.
10.75(9)	Registration Rights Agreement by and among Equinix and the Initial Purchasers, dated as of December 31, 2002.
10.76(9)	Securities Purchase Agreement by and among Equinix, the Guarantors and the Purchasers, dated as of October 2, 2002.
10.77(9)	Series A-1 Convertible Secured Note Due 2007 issued to i-STT Investments Pte Ltd on December 31, 2002.
10.78(9)	Preferred Stock Warrant issued to i-STT Investments Pte Ltd on December 31, 2002.
10.79(9)	Change in Control Warrant issued to i-STT Investments Pte Ltd on December 31, 2002.
10.80(13)	Series A Cash Trigger Warrant issued to i-STT Investments Pte Ltd on June 5, 2003.
10.81(13)	Series B Cash Trigger Warrant issued to i-STT Investments Pte Ltd on June 5, 2003.
10.82(9)	First Supplemental Indenture between Equinix and State Street Bank and Trust Company of California, N.A., as Trustee, dated as of December 28, 2002.
10.83(11)	Securities Purchase and Admission Agreement, dated April 29, 2003, among Equinix, certain of Equinix's subsidiaries, i-STT Investments Pte Ltd, STT Communications Ltd and affiliates of Crosslink Capital.
10.84(12)	Sublease by and between Electronics for Imaging as Landlord and Equinix Operating Co., Inc. as Tenant dated February 12, 2003.
10.85(13)	Form of Series A-2 Convertible Secured Note Due 2007 issued to entities affiliated with Crosslink Ventures on June 5, 2003.
10.87(13)	Form of Series A-2 Change in Control Warrant issued to entities affiliated with Crosslink Ventures on June 5, 2003.
10.88(13)	Form of Series A Cash Trigger Warrant issued to entities affiliated with Crosslink Ventures on June 5, 2003.
10.89(13)	Form of Series B Cash Trigger Warrant issued to entities affiliated with Crosslink Ventures on June 5, 2003.
10.90(13)	Expatriate Agreement with Philip Koen, President and Chief Operating Officer of the Company, dated as of June 24, 2003.
10.92(14)	Renewal of Tenancy Agreements over units #06-01, #06-05/08, #05-05/08, #03-05/08 & #05-01/04 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.93	Amendment to Second Amended and Restated Credit and Guaranty Agreement, dated as of November 18, 2003.
10.94	Fourth Modification to Ground Lease by and between iStar San Jose, LLC and Equinix, Inc., dated as of November 21, 2003.
10.95+	Sublease Agreement between Sprint Communications Company, L.P. and Equinix Operating Co., Inc. dated October 24, 2003.
10.96	Tenancy Agreement over units #03-01, #03-02, #03-03, #03-04 of Block 20 Ayer Rajah Crescent, Singapore 139964.
10.97	Lease Agreement with JMA Robinson Redevelopment, LLC, as successor in interest to Carrier Central L.A., Inc., dated as of November 30, 2003.
16.1(1)	Letter regarding change in certifying accountant.

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<u>Exhibit Number</u>	<u>Description of Document</u>
21.1(9)	Subsidiaries of Equinix.
23.1	Consent of PricewaterhouseCoopers LLP, Independent Accountants.
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Chief Executive Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Chief Financial Officer Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(1)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Registration Statement on Form S-4 (Commission File No. 333-93749).
(2)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Registration Statement in Form S-1 (Commission File No. 333-39752).
(3)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000.
(4)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001.
(5)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001.
(6)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.
(7)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002.
(8)	Incorporated herein by reference to Annex A of Equinix's Definitive Proxy Statement filed with the Commission December 12, 2002.
(9)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002.
(10)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Annual Report on Form 10-K/A for the year ended December 31, 2002.
(11)	Incorporated herein by reference to exhibit 10.1 in the Registrant's filing on Form 8-K on May 1, 2003.
(12)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003.
(13)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2003.
(14)	Incorporated herein by reference to the exhibit of the same number in the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003.
+	Confidential treatment has been requested for certain portions which are omitted in the copy of the exhibit electronically filed with the Securities and Exchange Commission. The omitted information has been filed separately with the Securities and Exchange Commission pursuant to Equinix's application for confidential treatment.

**EQUINIX OPERATING CO., INC.
EQUINIX, INC.**

**SECOND AMENDMENT TO SECOND AMENDED
AND RESTATED CREDIT AND GUARANTY AGREEMENT**

This **SECOND AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AND GUARANTY AGREEMENT** (this "**Second Amendment**") is dated as of November 18, 2003 and entered into by and among **EQUINIX OPERATING CO., INC.**, a Delaware corporation, as the Borrower ("**OpCo**"), **EQUINIX, INC.**, a Delaware corporation, as a Guarantor ("**the Company**"), and **CERTAIN SUBSIDIARIES OF THE COMPANY**, as Guarantors, the Lenders party hereto from time to time, **SALOMON SMITH BARNEY INC.** ("**SSB**"), as Lead Arranger (in such capacity, the "**Lead Arranger**"), and Book Runner (in such capacity, the "**Book Runner**"), **CITICORP USA, INC.** ("**Citicorp**"), as Administrative Agent (together with its permitted successors and assigns in such capacity, "**Administrative Agent**") and as Collateral Agent (as successor to CIT Lending Services Corporation and together with its permitted successors and assigns in such capacity, "**Collateral Agent**"), and is made with reference to that certain Second Amended and Restated Credit and Guaranty Agreement dated as of December 31, 2002 by and among OpCo, the Company, Guarantors, the Lenders, SSB and Citicorp (as amended through the date hereof, the "**Credit Agreement**"). Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, the Company proposes consummating a secondary public offering (the "**Secondary Offering**") the proceeds of which shall be used (i) to prepay the Loans in an amount equal to the greater of \$25,000,000 or 50% of the gross proceeds of the Secondary Offering; and (ii) to the extent of any excess, for other general corporate purposes of the Company and its Subsidiaries, including, without limitation, capital expenditures;

WHEREAS, in connection with the Secondary Offering, the Company and OpCo desire that the Lenders amend certain of the terms and provisions of the Credit Agreement as set forth below; and

WHEREAS, subject to certain conditions, the Lenders are willing to agree to make certain amendments to the Credit Agreement.

NOW, THEREFORE, in consideration of the promises and the agreements, provisions and covenants herein contained, the parties hereto agree as follows:

Section 1. AMENDMENTS TO CREDIT AGREEMENT

Subject to the terms and conditions set forth herein and in reliance on the representations and warranties of OpCo and the Company herein contained, the parties hereto agree as follows:

(i) Section 1.1 of the Credit Agreement is hereby amended by amending the definitions of “**Aggregate Excess Cash**”, “**Interest Period**”, “**Maturity Date**” and “**Restricted Junior Payment**” in their entirety to read as follows:

“**Aggregate Excess Cash**” means the aggregate consolidated amount of Cash and Cash Equivalents in excess of \$25,000,000 as listed on the consolidated balance sheet of the Company and its Subsidiaries as at the end of any Fiscal Quarter.

“**Interest Period**” means, in connection with a Eurodollar Rate Loan, an interest period of one, two, three or six months, as selected by the Borrower in the applicable Conversion/Continuation Notice, (i) initially, commencing on the Conversion/Continuation Date thereof, as the case may be; and (ii) thereafter, commencing on the day on which the immediately preceding Interest Period expires; provided, (a) if an Interest Period would otherwise expire on a day that is not a Business Day, such Interest Period shall expire on the next succeeding Business Day unless no further Business Day occurs in such month, in which case such Interest Period shall expire on the immediately preceding Business Day; (b) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall, subject to clause (c), of this definition, end on the last Business Day of a calendar month; and (c) no Interest Period with respect to any portion of any Term Loans shall extend beyond the Maturity Date.

“**Maturity Date**” means the earlier of (i) December 31, 2006, (ii) the date the Obligations are paid in full pursuant to any prepayment made in accordance with Sections 2.11, 2.12 or 2.13, and (iii) the date on which the Loans shall become due and payable, whether by acceleration or otherwise.

“**Restricted Junior Payment**” means (i) any dividend or other distribution, direct or indirect, on account of any shares of any class of stock of the Company or OpCo now or hereafter outstanding, except a dividend payable solely in shares of that class of stock to the holders of that class; (ii) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of stock of the Company now or hereafter outstanding except to the extent payable in exchange for shares of Capital Stock of the Company, (iii) any payment made to retire, or to obtain the surrender of, any outstanding warrants, options or other rights to acquire shares of any class of stock of the Company or OpCo now or hereafter

outstanding except to the extent paid with shares of Capital Stock of the Company or OpCo or warrants, options or other rights to acquire any such shares, (iv) any payment or prepayment of principal of, premium, if any, or interest on, or redemption, purchase, retirement, defeasance (including in-substance or legal defeasance), sinking fund or similar payment with respect to, the Convertible Notes, (v) any payment or prepayment of principal of, premium, if any, or interest on, or redemption, purchase, retirement, defeasance (including in-substance or legal defeasance), sinking fund or similar payment with respect to, the Senior Notes, and any Permitted Equipment Financing; provided that Restricted Junior Payments shall not include (w) the issuance of the Warrants on the Second Amendment Effective Date, or the exercise of Warrants from and after the Second Amendment Effective Date in accordance with the terms and conditions thereof, (x) the conversion of the Convertible Notes for Qualifying Equity of the Company, or the conversion of any such Qualifying Equity, made after the Second Amendment Effective Date in accordance with the terms and conditions of the Convertible Note Documents, (y) the acquisition by STT of common stock and series A preferred equity of the Company pursuant to STT's exercise of the STT Additional Equity Option and (z) the retirement of Senior Notes pursuant to an exchange of Senior Notes for Qualifying Equity of the Company which does not involve or require any cash payment or pledge of any assets of the Company or its Subsidiaries (other than the payment of reasonable fees and expenses to professionals for services rendered in connection therewith).

(ii) Section 1.1 of the Credit Agreement is hereby further amended by deleting the definition of **"Deferral Amount"** in its entirety.

(iii) Section 2.10 of the Credit Agreement is hereby amended by deleting such section in its entirety and replacing it with the following:

“Scheduled Term Loan Installments. The principal amounts of the Term Loans shall be repaid in the aggregate amounts set forth below (each, a “**Term Loan Installment**”) on the corresponding date set forth below (each, a “**Term Loan Installment Date**”):

<u>Term Loan Installment Dates</u>	<u>Term Loan Installments</u>
December 1, 2003	\$ 990,437.50
March 31, 2004	\$ 2,500,000.00
June 30, 2004	\$ 3,500,000.00
September 30, 2004	\$ 2,500,000.00
December 31, 2004	\$ 3,500,000.00
March 31, 2005	\$ 2,500,000.00
June 30, 2005	\$ 3,500,000.00
September 30, 2005	\$ 2,500,000.00
December 31, 2005	\$ 3,500,000.00
March 31, 2006	\$ 4,632,171.88
June 30, 2006	\$ 5,632,171.88
September 30, 2006	\$ 4,632,171.88
December 31, 2006	\$ 5,632,171.88

Notwithstanding the foregoing, (i) such Term Loan Installments shall be reduced in connection with any voluntary or mandatory prepayments of the Loans, in accordance with Sections 2.11, 2.12 and 2.13, as applicable; and (ii) the Loans, together with all other amounts owed hereunder with respect thereto, shall, in any event, be paid in full no later than the Maturity Date.”

(iv) Section 2.12 of the Credit Agreement is hereby amended by deleting Section 2.12(c) in its entirety and replacing it with the following:

“(c) Aggregate Excess Cash. In the event that there shall be Aggregate Excess Cash for any Fiscal Quarter, commencing with the Fiscal Quarter ending March 31, 2005, the Borrower shall, no later than forty-five (45) days after the end of such Fiscal Quarter, prepay the Loans as set forth in Section 2.13 in an aggregate amount equal to 50% of such Aggregate Excess Cash.”

(v) Section 2.12 of the Credit Agreement is hereby further amended by deleting Section 2.12(d) in its entirety and replacing it with the following:

“(d) Issuance of Equity Securities. If Company or any of its Subsidiaries shall receive any Cash proceeds from the issuance of any Capital Stock of, Company or any of its Subsidiaries in connection with the registration statement filed by the Company with the Securities and Exchange Commission on October 15, 2003, then Borrower shall prepay the Loans as set forth in Section 2.13 in an aggregate amount equal to fifty percent (50%) of the gross proceeds of such issuance of Capital Stock.”

(vi) Section 2.12 of the Credit Agreement is hereby further amended by deleting Sections 2.12(e), 2.12(f) and 2.12(g) in their entirety and replacing them with the following:

“(e) **[Reserved]**.”

(f) [Reserved].

(g) [Reserved].”

(vii) Section 2.13 of the Credit Agreement is hereby amended by deleting Section 2.13(b) in its entirety and replacing it with the following:

“(b) Application of Mandatory Prepayments by Type of Loans. (i) Any amount required to be prepaid pursuant to Section 2.12(a) through 2.12(c) shall be applied to prepay outstanding Loans on a pro rata basis (in accordance with the respective outstanding principal amounts thereof), (ii) any amount required to be prepaid pursuant to Section 2.12(h) and Section 2.12(i) shall be applied to prepay outstanding Loans in inverse order of maturity, commencing with the payment due on December 31, 2006, and (iii) any amount required to be prepaid pursuant to Section 2.12(d) shall be applied to prepay Term Loan Installments as follows: first, to prepay Term Loan Installments due in 2006 on a pro rata basis, second, to the extent of any excess, to prepay Term Loan Installments due in 2005 on a pro rata basis, and third, to the extent of any excess to prepay Term Loan Installments due in 2004, on a pro rata basis.”

(viii) Section 6.6 of the Credit Agreement is hereby amended by (i) deleting Schedule 6.6 in its entirety; and (ii) deleting Section 6.6 in its entirety and replacing it with the following:

“**6.6 Stage 1 Financial Covenants. Minimum Cash and Cash Equivalents**. During Stage 1, Company shall not permit aggregate Cash and Cash Equivalents of Company and its Subsidiaries as of the last day of each calendar month to be less than \$15,000,000; provided, that for purposes of calculating the covenant set forth in this Section 6.6, all amounts of Cash and Cash Equivalents held by the Singapore Subsidiaries shall be deducted from such calculation.”

(ix) Section 6.7 of the Credit Agreement is hereby amended by deleting Schedules 6.7(a), 6.7(b), 6.7(c) and 6.7(d) in their entirety and replacing them with the corresponding schedules attached as Annex A to the Second Amendment.

(x) Section 6.7 of the Credit Agreement is hereby further amended by (i) deleting Schedule 6.7(e) in its entirety; and (ii) deleting Section 6.7(e) in its entirety and replacing it with the following:

“(e) Minimum Cash and Cash Equivalents. During Stage 2, Company shall not permit aggregate Cash and Cash Equivalents of Company and its Subsidiaries as of the last day of each calendar month to be less than \$15,000,000; provided, that for purposes of calculating the covenant set forth in this Section 6.7(e), all amounts of Cash and Cash Equivalents held by the Singapore Subsidiaries shall be deducted from such calculation.”

(xi) Section 6.8 of the Credit Agreement is hereby amended by deleting Schedules 6.8(a) and 6.8(b) in their entirety and replacing them with the corresponding schedule attached as Annex A to the Second Amendment.

(xii) Section 6.8(b) of the Credit Agreement is hereby further amended by adding the following paragraph at the conclusion thereof as follows:

“Notwithstanding any of the foregoing to the contrary, with respect to the fourth Fiscal Quarter of 2003, the Singapore Subsidiaries may make or incur additional capital expenditures in excess of the amount allocated for such Fiscal Quarter in Schedule 6.8(b) provided, that (i) any additional capital expenditures in excess of the amount allocated for the fourth Fiscal Quarter of 2003 shall be deducted from the amount of capital expenditures allocated to the Singapore Subsidiaries for the first Fiscal Quarter of 2004, as set forth on Schedule 6.8(b); and (ii) the aggregate amount of all such additional capital expenditures in excess of the amount allocated for the fourth Fiscal Quarter of 2003 shall, in any event, not exceed \$500,000.”

Section 2. REPRESENTATIONS AND WARRANTIES

In order to induce Lenders to enter into this Second Amendment, OpCo and the Company hereby represent and warrant that, after giving effect to this Second Amendment:

- (a) as of the date hereof, there exists no Event of Default or Default under the Credit Agreement;
- (b) all representations and warranties contained in the Credit Agreement and the other Credit Documents are true and correct in all material respects on and as of the date hereof except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true and correct in all material respects on and as of such earlier date; and
- (c) as of the date hereof, OpCo and the Company have performed all agreements to be performed on their part as set forth in the Credit Agreement.

Section 3. CONDITIONS TO EFFECTIVENESS

This Second Amendment shall become effective only upon the satisfaction of all of the following conditions precedent (the date of satisfaction of such conditions being referred to herein as the “**Second Amendment Effective Date**”):

- (i) **Execution.** OpCo, the Company, the Credit Support Parties (as defined below), the Lenders and Agents shall have executed this Second Amendment.

(ii) **Secondary Offering and Prepayment.** The Company shall have received the gross proceeds of the Secondary Offering and the Administrative Agent shall have received for distribution to all of the Lenders (in accordance with each Lender's Pro Rata Share) a voluntary prepayment of the Loans in an amount equal to the greater of \$25,000,000 or 50% of the gross proceeds of the Secondary Offering. Such voluntary prepayment shall be applied by the Administrative Agent in the manner necessary to achieve the amortization table in Section 2.10, as amended hereby.

(iii) **Representations and Warranties.** The representations and warranties contained in Section 2 of this Second Amendment shall be true and correct in all material respects on and as of the Second Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true and correct in all material respects on and as of such earlier date.

(iv) **No Event of Default.** As of the Second Amendment Effective Date, no event shall have occurred and be continuing that would constitute an Event of Default or a Default.

(v) **Fees.** The Administrative Agent and Lenders shall have received all fees and other amounts due and payable pursuant to any Credit Document on or prior to the Second Amendment Effective Date, including, (i) the reasonable fees and expenses of Skadden, Arps, Slate, Meagher & Flom LLP, (ii) the reasonable fees and expenses of Ernst & Young Corporate Finance LLC, (iii) the reasonable fees and expenses of each of the following foreign law firms: (A) Freehills, (B) Simmons & Simmons and (C) Stamford Law Corporation, and (iv) to the extent invoiced, reimbursement or other payment of all reasonable out-of-pocket expenses required to be reimbursed or paid by the Company hereunder or under any other Credit Document.

Section 4. COUNTERPARTS

This Second Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument; signature pages may be detached from multiple separate counterparts and attached to a single counterpart so that all signature pages are physically attached to the same document.

Section 5. ACKNOWLEDGMENT AND CONSENT

Each of the Company and the Guarantors have (i) guaranteed the Obligations and (ii) created Liens in favor of Lenders on certain Collateral to secure their obligations

under the Credit Agreement and the Collateral Documents. Each of the Company and the Guarantors are collectively referred to herein as the **“Credit Support Parties”**, and the Credit Agreement and the Collateral Documents are collectively referred to herein as the **“Credit Support Documents”**.

Each Credit Support Party hereby acknowledges that it has reviewed the terms and provisions of the Credit Agreement and this Second Amendment and consents to the amendment of the Credit Agreement effected pursuant to this Second Amendment. Each Credit Support Party hereby confirms that each Credit Support Document to which it is a party or otherwise bound and all Collateral encumbered thereby will continue to guarantee or secure, as the case may be, to the fullest extent possible in accordance with the Credit Support Documents the payment and performance of all “Obligations” under each of the Credit Support Documents, as the case may be (in each case as such terms are defined in the applicable Credit Support Document), including without limitation the payment and performance of all such “Obligations” under each of the Credit Support Documents, as the case may be, in respect of the Obligations of the Company now or hereafter existing under or in respect of the Credit Agreement, as amended hereby and hereby pledges and assigns to the Collateral Agent, and grants to the Collateral Agent a continuing lien on and security interest in and to all Collateral as collateral security for the prompt payment and performance in full when due of the “Obligations” under each of the Credit Support Documents to which it is a party (whether at stated maturity, by acceleration or otherwise).

Each Credit Support Party acknowledges and agrees that any of the Credit Support Documents to which it is a party or otherwise bound shall continue in full force and effect and that all of its obligations thereunder shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Second Amendment. Each Credit Support Party represents and warrants that all representations and warranties contained in the Credit Agreement, this Second Amendment and the Credit Support Documents to which it is a party or otherwise bound are true and correct in all material respects on and as of the Second Amendment Effective Date to the same extent as though made on and as of that date, except to the extent such representations and warranties specifically relate to an earlier date, in which case they were true and correct in all material respects on and as of such earlier date.

Each Credit Support Party acknowledges and agrees that (i) notwithstanding the conditions to effectiveness set forth in this Second Amendment, such Credit Support Party is not required by the terms of the Credit Agreement or any other Credit Document to consent to the amendments to the Credit Agreement effected pursuant to this Second Amendment and (ii) nothing in the Credit Agreement, this Second Amendment or any other Credit Document shall be deemed to require the consent of such Credit Support Party to any future amendments to the Credit Agreement.

Section 6. MISCELLANEOUS

(i) Reference to and Effect on the Credit Agreement and the other Credit Documents .

(a) On and after the Second Amendment Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Credit Agreement, and each reference in the other Credit Documents to the “Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as amended by this Second Amendment.

(b) Except as specifically amended by this Second Amendment, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed.

(c) The execution, delivery and performance of this Second Amendment shall not, except as expressly provided herein, constitute a waiver of any provision of, or operate as a waiver of any right, power or remedy of any Agent or Lender under, the Credit Agreement or any of the other Credit Documents.

(ii) Headings. Section and Subsection headings in this Second Amendment are included herein for convenience of reference only and shall not constitute a part of this Second Amendment for any other purpose or be given any substantive effect.

(iii) Limited Waiver. Subject to the terms and conditions set forth herein and in reliance on the representations and warranties of OpCo and the Company herein contained, each of the Lenders party hereto waives, to the extent necessary, the terms and provisions of Section 3.1(b) of the Pledge & Security Agreement with respect to the Company’s failure to notify the Collateral Agent of the name change for the following Subsidiaries: (i) Equinix Asia HQ Pte Ltd (now Equinix Asia Pacific Pte Ltd); (ii) Pihana Pacific, Inc. (now Equinix Pacific, Inc.); (iii) Pihana Pacific Business Recovery, Inc. (now Equinix Pacific Business Recovery, Inc.); (iv) Pihana Pacific Australia Pty Limited (now Equinix Australia Pty Limited); (v) Pihana Pacific Japan KK (now Equinix Japan KK); and (vi) Pihana Pacific Hong Kong Limited (now Equinix Hong Kong Limited). The waiver set forth above shall be limited precisely as written and relate solely to the waiver of the provisions of the Pledge & Security Agreement in the manner and to the extent described above, and nothing in this Second Amendment shall be deemed to (a) constitute a waiver of compliance by OpCo or Company with respect to any other term, provision or condition of the Credit Agreement, the Pledge & Security Agreement or any other instrument or agreement referred to therein; or (b) prejudice any right or remedy that any Agent or any Lender may now have (except to the extent such right or remedy was based upon existing defaults that will not exist after giving effect to this Second Amendment) or may have in the future under or in connection with the Credit Agreement, the Pledge & Security Agreement or any other instrument or agreement referred to therein. Except as expressly set forth herein, the terms, provisions and

conditions of the Credit Agreement, the Pledge & Security Agreement and the other Credit Documents shall remain in full force and effect and in all other respects are hereby ratified and confirmed.

Section 7. GOVERNING LAW

THIS SECOND AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK (INCLUDING SECTION 5-1401 AND SECTION 5-1402 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK) WITHOUT REGARD TO CONFLICTS OF LAWS PRINCIPLES THEREOF.

Section 8. GENERAL RELEASE

In consideration of the Agent's and Lenders' execution of this Second Amendment, each Credit Party unconditionally and irrevocably acquits and fully and forever releases and discharges each Lender, and Agent and all their respective affiliates, partners, subsidiaries, officers, employees, agents, attorneys, principals, directors and shareholders of such Persons, and their respective heirs, legal representatives, successors and assigns (collectively, the **"Releasees"**) from any and all claims, demands, causes of action, obligations, remedies, suits, damages and liabilities of any nature whatsoever, whether now known, suspected or claimed, whether arising under common law, in equity or under statute, which such Credit Party ever had or now has against any of the Releasees and which may have arisen at any time prior to the date hereof and which were in any manner related to the Credit Agreement, this Second Amendment, any other Credit Document now or hereafter in existence or related documents, instruments or agreements or the enforcement or attempted or threatened enforcement by any of the Releasees of any of their respective rights, remedies or recourse related thereto (collectively, the **"Released Claims"**). Each Credit Party covenants and agrees never to commence, voluntarily aid in any way, prosecute or cause to be commenced or prosecuted against any of the Releasees any action or other proceeding based upon any of the Released Claims. Notwithstanding the foregoing, in no event shall the foregoing be interpreted, construed or otherwise deemed as an admission or suggestion by the Agents and Lenders of any wrong doing or liability owed to the Company, any Credit Party or any other Person. For the avoidance of doubt, this Section 8 shall extend and apply to any Agent under the Credit Agreement with respect to any time period prior to their resignation.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their respective officers thereunto duly authorized as of the date written above.

EQUINIX, INC.

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX OPERATING CO., INC.

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX EUROPE, INC.

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX – DC, INC.

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

**EQUINIX CAYMAN ISLANDS
HOLDINGS**

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX DUTCH HOLDINGS N.V.

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX NETHERLANDS B.V.

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX FRANCE SARL

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX GERMANY GMBH

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX UK LIMITED

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX ASIA PACIFIC PTE LTD

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX PACIFIC, INC.

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

**EQUINIX BUSINESS RECOVERY,
INC.**

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

**PIHANA PACIFIC BUSINESS
RECOVERY HONG KONG LIMITED**

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX AUSTRALIA PTY LIMITED

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX JAPAN KK

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EQUINIX HONG KONG LIMITED

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EAGLE ACQUISITION CORP 2A

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EAGLE ACQUISITION CORP 1A

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

EAGLE ACQUISITION CORP 1B

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

AGENT:

SALOMON SMITH BARNEY INC.

Lead Arranger and Book Runner

^{by} /s/ Randolph I. Thornton

Name: Randolph I. Thornton

Title: Managing Director

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CITICORP USA, INC.
as Administrative Agent, Collateral Agent
and a Lender

By: /s/ Michael C. Becker

Name: Michael C. Becker
Title: Director

CIT LENDING SERVICES CORPORATION
as a Lender

By: /s/ Steven K. Reedy

Name: Steven K. Reedy
Title: Vice President

LENDERS:

**GENERAL ELECTRIC CAPITAL
CORPORATION**

as a Lender

By: /s/ Bhupesh Gupta

Name: Bhupesh Gupta
Title: Manager, Operations

**BANK OF TOKYO-MITSUBISHI TRUST THE
COMPANY,**
as a Lender

By: /s/ Tod Angus

Name: Tod Angus
Title: Authorized Signatory

THE BANK OF NOVA SCOTIA,
as a Lender

By: /s/ Stephen C. Levi

Name: Stephen C. Levi
Title: Director

**JPMORGAN CHASE BANK, (formerly known
as THE CHASE MANHATTAN BANK),**
as a Lender

By: /s/ John P. McDonagh

Name: John P. McDonagh
Title: Managing Director

**COMERICA BANK, successor by merger to
Comerica Bank-California**
as a Lender

By: /s/ Kenneth W. LeDeit

Name: Kenneth W. LeDeit
Title: FVP – Western Division

ISTAR FINANCIAL INC.

as a Lender

By: /s/ Jay S. Sugarman

Name: Jay S. Sugarman
Title: Chairman & CEO

FOURTH MODIFICATION TO GROUND LEASE

THIS FOURTH MODIFICATION TO GROUND LEASE (this "**Modification**") is made as of November 21, 2003 by and between iS TAR SAN JOSE, LLC, a Delaware limited liability company ("**Lessor**"), and EQUINIX, INC., a Delaware corporation ("**Lessee**").

RECITALS

A. Lessor and Lessee entered into that certain Ground Lease dated as of June 21, 2000 (the "**Original Lease**"), as amended by that certain First Modification to Ground Lease dated as of September 26, 2001, that certain Second Modification to Ground Lease dated as of March 20, 2002 (the "**Second Amendment**"), that certain letter agreement dated September 24, 2002 (the "**Letter Agreement**"), and that certain Third Modification to Ground Lease dated as of September 30, 2002 (the "**Third Amendment**") (collectively, the "Lease"), which Lease covers approximately 39.223 acres of unimproved real property, located in the City of San Jose, County of Santa Clara, State of California, as more particularly described in the Lease. Capitalized terms used but not defined herein shall have the meanings set forth in the Lease.

B. Concurrently with the execution of the Original Lease, Lessor and Lessee executed a Memorandum of Lease and Purchase Option, dated as of June 21, 2000 (the "**Original Memorandum**"), which Original Memorandum was recorded on June 21, 2000, as Document No. 15286834 in the Official Records of Santa Clara County, California (the "**Official Records**"). The Original Memorandum was amended and restated by that certain Amended and Restated Memorandum of Lease and Purchase Option dated as of October 1, 2001 and recorded on _____, 2001 as Document No. _____ in the Official Records.

C. Lessee has requested that Lessor modify Section 4.1(b) of the Lease, and to make such other modifications to the Lease as are set forth herein.

D. Lessor is willing to agree to such changes to the Lease on the terms and conditions set forth herein.

AGREEMENT

NOW THEREFORE, in consideration of the agreements of Lessor and Lessee herein contained and other valuable consideration, the receipt and adequacy of which are hereby acknowledged, Lessor and Lessee hereby agree to modify the Lease as follows:

1. RENT MODIFICATION

Notwithstanding anything to the Contrary in the Lease, Section 4.1(b) of the Lease shall be deleted in its entirety and replaced with the following:

“(b) Notwithstanding anything to the contrary set forth herein:

(1) Lessor acknowledges that Lessee has prepaid all Annual Base Rent owing for the period from October 1, 2002 through December 31, 2003 and Lessee shall have no further obligation for Annual Base Rent due hereunder for such period.

(2) During the period from January 1, 2004 through June 30, 2004, Lessee shall only be obligated to pay on a current basis one-half of the monthly Annual Base Rent specified pursuant to Section 4.1(a) above (representing a monthly payment of \$199,665.30), and during the period from July 1, 2004 through December 31, 2004 Lessee shall only be obligated to pay on a current basis three-quarters of the monthly Annual Base Rent specified pursuant to Section 4.1(a) above (representing a monthly payment of \$299,497.96). Any portion of the Annual Base Rent that is not paid on a current basis pursuant to the provisions of this Section 2.(b)(2) shall be deferred, shall be referred to herein as "Deferred Annual Base Rent" and shall be paid as provided in Sections 2.(b)(3) and (4) below.

(3) For each quarter of 2005 (e.g. January-March ("Q1"), April-June ("Q2"), July-September ("Q3") and October-December ("Q4")), Lessee shall pay to Lessor within thirty (30) days after the end of such quarter an additional sum (the "**Cash Flow Reimbursement**") equal to the lesser of (x) the cumulative accrued but unpaid amount of Deferred Annual Base Rent, and (y) an amount equal to 15% of Lessee's Aggregate Excess Cash, as defined below, for the applicable quarter. The Cash Flow Reimbursement shall be considered part of the Annual Base Rent for the purposes of this Lease. Aggregate Excess Cash for each applicable quarter shall mean the aggregate amount of "Cash" and "Cash Equivalents" in excess of \$20,000,000 as set forth in the certified, consolidated financial statements of Lessee and its "Restricted Subsidiaries," as defined in the Credit Agreement described below, that Lessee is required to provide under the Credit Agreement. "Credit Agreement" shall mean that certain Second Amendment to Second Amended and Restated Credit and Guaranty Agreement dated as of November 18, 2003, between Lessee, Equinix Operating Co., Inc., and the Senior Lenders parties thereto.

(4) Notwithstanding anything to the contrary in this subparagraph (b), each monthly payment of the Annual Base Rent beginning with the monthly payment of Annual Base Rent due on October 21, 2005 through the monthly payment due on June 20, 2015 shall be increased by the quotient obtained by dividing the unpaid Deferred Annual Base Rent as of December 31, 2004 by one hundred and sixteen (116)."

2. REPRESENTATIONS, WARRANTIES AND COVENANTS

Lessee hereby represents, warrants and covenants to Lessor as follows:

(a) Lessee is a corporation, duly organized, validly existing and in good standing under the laws of the State of Delaware, and is duly qualified to transact business in the State of California.

(b) Lessee has taken all necessary action to authorize the execution, delivery and performance of this Modification. This Modification constitutes the legal, valid and binding obligation of Lessee.

(c) Lessee has the right, power, legal capacity and authority to enter into and perform its obligations under this Modification, and no approval or consent of any Person is required in connection with Lessee's execution and performance of this Modification that has not been obtained. The execution and performance of this Modification will not result in or constitute any default or event that would be, or with notice or lapse of time or both would be, a default, breach or violation of the organizational instruments governing Lessee or any agreement or any deed restriction or order or decree of any court or other governmental authority to which Lessee is a party or to which it is subject.

(d) Lessee is the sole owner and holder of the leasehold estate and leasehold interest created by the Lease, and Lessee has not made or agreed to make any assignment, sublease, transfer, conveyance, encumbrance, or other disposition of the Lease, Lessee's leasehold estate or any other right, title or interest under or arising by virtue of the Lease, except for that letter of offer dated October 28, 2003 from Kristine Mostofizadeh to Adonna J. Amoroso and V. Susan Cox of the San Jose Police Department, a copy of which has been delivered to Lessor.

(e) Lessee has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by its creditors, (iii) suffered the appointment of a receiver to take possession of all or substantially all of its assets, (iv) suffered the attachment or other judicial seizure of all or substantially all of its assets, (v) admitted in writing its inability to pay its debts as they become due, or (vi) made an offer of settlement, extension or composition to its creditors generally (each, a "Bankruptcy Event").

(f) At the time of the execution of this Agreement, Lessee is generally paying its debts as they become due, and the aggregate value of Lessee's assets at fair value exceeds the aggregate value of Lessee's liabilities.

Lessee shall take all actions necessary to ensure that each of the representations, warranties and covenants contained in this Paragraph 2 remain true and correct in all material respects at all times during the period between the date of this Modification and the expiration of the Term and any holdover period.

3. BROKERS

Lessor and Lessee each represents and warrants to the other that neither it nor its officers or agents nor anyone acting on its behalf has dealt with any real estate broker in the negotiating or making of this Modification, and each party agrees to indemnify and hold harmless the other from any claim or claims, and costs and expenses, including

attorneys' fees, incurred by the indemnified party in conjunction with any such claim or claims of any other broker or brokers to a commission in connection with this Modification as a result of the actions of the indemnifying party.

4. MISCELLANEOUS

A. In the event of any inconsistencies between the terms of this Modification and the Lease, the terms of this Modification shall prevail. This Modification shall bind and inure to the benefit of Lessor and Lessee and their respective legal representatives and successors and assigns.

B. This Modification may be executed in counterparts each of which counterparts when taken together shall constitute one and the same agreement.

C. Except as set forth in this Modification, all terms and conditions of the Lease shall remain in full force and effect.

D. This Modification, with exhibits, is a fully-integrated agreement which, together with the Lease, contains all of the parties' representations, warranties, agreements and understandings with respect to the subject matter hereof.

IN WITNESS WHEREOF, Lessor and Lessee have executed this Modification as of the date first above written.

LESSOR:

iSTAR SAN JOSE, LLC,
a Delaware limited liability company

By: TriNet Corporate Realty Trust, Inc.,
a Maryland corporation,
Its: Sole Member

By: /s/ Jay Sugarman

Name: Jay Sugarman
Title: Chief Executive Officer

LESSEE:

EQUINIX, INC.,
a Delaware corporation

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

SUBLEASE AGREEMENT

THIS SUBLEASE AGREEMENT ("Sublease") is made and entered into as of the 24th day of October 2003, by and between SPRINT COMMUNICATIONS COMPANY, L.P., a Delaware limited partnership ("Sublandlord"), and EQUINIX OPERATING CO., INC., a Delaware corporation ("Subtenant").

RECITALS

A. Duane Raymond, LLC, a California limited liability company ("Master Landlord"), has leased to Sublandlord the space in and around the building (the "Building") situated on the real property commonly known and numbered as 1350 Duane Avenue, Santa Clara, California, such space being more particularly described in Exhibit A attached hereto and incorporated herein by this reference (the "Premises"), pursuant to that certain Lease made and entered into as of November 30, 2000 by Master Landlord and Sublandlord as amended by First Amendment dated as of March 15, 2001 (collectively, the "Master Lease").

B. A true, correct and complete copy of the Master Lease is attached hereto as Exhibit B and incorporated herein by this reference.

C. Subtenant desires to sublet from Sublandlord, and Sublandlord has agreed to sublet to Subtenant, all of the Premises consisting of 160,000 square feet of space (the "Subleased Premises").

D. All undefined, capitalized terms used in this Sublease have the meanings ascribed to such terms in the Master Lease.

NOW THEREFORE, for valuable consideration and on the terms and conditions set forth herein, Sublandlord and Subtenant hereby agree as follows:

1. Subleased Premises. Sublandlord hereby leases to Subtenant, and Subtenant hereby leases from Sublandlord, the Subleased Premises, together with the right to use the Common Area (including, but not limited to, Tenant's Allocated Parking Stalls within the Project), the Parking Area and the Exterior Area) provided by Master Landlord to Sublandlord pursuant to the terms of the Master Lease. The Subleased Premises shall include all tenant improvements, alterations, conduits and equipment installed therein by Sublandlord. In addition, Sublandlord hereby assigns to Subtenant for the duration of the Term (as hereinafter defined) of this Sublease, all rights that Sublandlord has pursuant to the Master Lease in connection with the occupancy, use or enjoyment of the Subleased Premises and agrees that (subject to Sublandlord's rights pursuant to the MSA and the Conduits Agreement (each term as defined below)) such rights shall be exercisable exclusively by Subtenant while the Sublease is in effect. Such rights shall include, but not be limited to, the following: all rights Sublandlord has pursuant to Section 2.1 [Demise of Premises] of the Master Lease; all signage rights Sublandlord has pursuant to Section 4.3 [Signs] of the Master Lease, all parking rights that Sublandlord has pursuant to Section 4.4 [Parking] of the Master Lease, all rights Sublandlord has pursuant to Section 14.1(D) of the Master Lease (i.e., to permit Customers to enter upon and occupy the Premises for purposes of installing, repairing, replacing, operating and maintaining their customer

equipment); all rights Sublandlord has pursuant to the following provisions of the Lease Rider to the Master Lease: Paragraph 3 [Roof Rights]; Paragraph 4 [Exterior Area]; Paragraph 5 [Fiber and Electrical Conduit Rights of Way]; Paragraph 6 [Emergency Generators and Fuel Storage Tanks]; Paragraph 7 [HVAC]; Paragraph 8 [Life Safety Systems]; Paragraph 10 [Leasehold Mortgage]; Paragraph 11 [Telephone Service]; and Paragraph 17 [Sprinkler]. Sublandlord warrants that (a) subject to obtaining the consent of Master Landlord as provided in Section 5, Sublandlord has the full power, authority and legal right to sublease the Subleased Premises to Subtenant, (b) Subtenant will have the right quietly to enjoy the Subleased Premises subject to (i) the Master Lease, (ii) the terms of this Sublease, and (iii) any other interest to which the Master Lease is subject according to its terms, and (c) the Subleased Premises will be in the same condition on the Commencement Date (as defined herein) as on the date hereof, normal wear and tear excepted.

2. Accompanying Agreements.

2.1 Employee Covenants Agreement. Sublandlord and Subtenant are simultaneously entering into a certain Employee Covenants Agreement, which is incorporated herein by reference, pursuant to which the parties agree to take certain actions and provide certain information beginning on the date hereof with respect to employees of Sublandlord at the Internet Data Center at the Subleased Premises to facilitate Subtenant making offers of employment to such employees, to be effective as of December 1, 2003 (the "Closing Date").

2.2 Master Service Agreement. The parties' relationship with respect to Sublandlord's point of presence into the Subleased Premises (the "Point of Presence") to provide IP transport shall be governed by that certain Master Service Agreement ("MSA") dated October 26, 2001.

2.3 Conduits Agreement. Sublandlord and Subtenant are simultaneously entering into a certain Agreement to License Conduits ("Conduits Agreement").

3. Certain Actions with Respect to Customer Contracts; Transition Services.

3.1 Certain Actions with Respect to Customer Contracts. During the first two years of this Sublease, Sublandlord and Subtenant will cooperate in any mutually agreeable, reasonable and lawful arrangements and use commercially reasonable efforts to cause each customer (each, a "Customer") of Sublandlord at the Subleased Premises having a contract (a "Customer Contracts") with Sublandlord to procure Collocation Services (as defined below) at the Premises, to agree to terminate its Customer Contract with Sublandlord as of the Closing Date and enter into new agreements for Collocation Services with Subtenant, and in each case, following the execution of a new agreement, Sublandlord will retain the right to receive all IP transport revenue under the Customer Contracts with Sublandlord in connection with the provision of Collocation Services by Subtenant to the Customer following the Closing Date. Subtenant agrees not to offer IP transport services to such Customer, either on its own behalf or on behalf of any other "Person" (defined below) other than Sublandlord, as part of or during the negotiations for new contracts contemplated by this provision, provided however, that following the Closing Date, Subtenant shall be entitled to respond to requests from Customers who wish to contact alternative providers for IP transport services. Notwithstanding the foregoing, if any

Customer refuses to enter into a new agreement with Subtenant or if the terms of any Customer Contracts require Sublandlord to deliver a termination notice to the applicable Customer between the date of this Sublease and the Closing Date, Sublandlord will terminate the applicable Customer Contracts, subject to Section 3(ii) below (each a “Termination Services Customer Contract”).

3.2 Transition Services. Except as provided in this Section 3(ii), neither Subtenant nor Sublandlord will provide any transition services at the Subleased Premises following the Closing Date. Following the Closing Date, Sublandlord will continue to provide Collocation Services at the Subleased Premises to each Customer under a Termination Services Customer Contract until the sooner of (a) the expiration of the applicable termination period under the Termination Services Customer Contract (the “Termination Services Period”); or (b) March 31, 2004; provided, however, that during the Termination Services Period, Sublandlord will pay to Subtenant the amount billed to the customer by Sublandlord for power and space at the Subleased Premises under the terms of the applicable Termination Services Customer Contract during the Termination Services Period from the Closing Date until the expiration of the applicable Termination Services Customer Contract.

For purposes of this Sublease, “Collocation Services” means services provided to a Customer that enable a Customer to install and operate telecommunications equipment in a data center, including provision of the space, power and network connections necessary to operate the equipment. “Person” means any individual, partnership, joint venture, corporation, trust, limited liability company, unincorporated organization, a government or any department or agency thereof, or other entity.

4. Master Lease.

4.1 Relationship of Sublease to Master Lease. Subtenant acknowledges that this Sublease is subject and subordinate to the Master Lease and to all the terms, covenants and conditions contained therein. To the extent that the Master Lease is also subject and subordinate to such instruments, this Sublease is also subject and subordinate to all ground and underlying leases and all mortgages which might now or hereafter affect such leases, the leasehold estate or estates thereby created or the real property of which the Subleased Premises form a part, and to any and all renewals, modifications, consolidations, replacements and extensions thereof. Subtenant covenants and agrees that (a) during the Term (as hereinafter defined) of this Sublease, Subtenant will perform and observe all of the terms, covenants, conditions and agreements of the Master Lease to be performed by Sublandlord (including, without limitation, the providing of estoppel certificates and subordination agreements in accordance with the Master Lease, if applicable) to the extent that the same are not modified or amended by this Sublease, (b) Subtenant shall not do, suffer or permit anything to be done which would constitute a default under the Master Lease or might cause the Master Lease to be canceled, terminated or forfeited, and (c) Subtenant will, in accordance with Section 9 below, and subject to the limitations therein, indemnify and hold harmless Sublandlord and Master Landlord from and against all claims, liabilities, losses and damages of any kind that Sublandlord or Master Landlord may incur to the extent they are by reason of, resulting from or arising out of a failure by Subtenant to comply with the provisions of this Sublease and/or the Master Lease, including, without limitation, subsections (a) and (b) of this paragraph. Notwithstanding the foregoing, Subtenant shall have no obligation to cure any default of Sublandlord under the Master Lease (except to the extent such default is caused by Subtenant’s default hereunder).

4.2 Utilization of Master Lease Provisions as Part of Sublease.

(a) Except as the terms and conditions set forth in this Sublease modify or contradict the terms and conditions of the Master Lease or any exhibits or attachments thereto, all of the terms and conditions contained in the Master Lease are hereby made a part of this Sublease and are deemed to constitute a portion of the agreement between Sublandlord and Subtenant concerning the leasing of the Subleased Premises; provided, however, that to the extent any of the terms and provisions of the Master Lease are inappropriate or inapplicable to this Sublease, such terms and provisions shall not be made a part hereof and in the event of any inconsistency between the Master Lease and this Sublease, as between Sublandlord and Subtenant, the provisions of this Sublease shall take precedence over any conflicting provisions of the Master Lease. Without limiting the generality of the foregoing, the parties agree that the following provisions of the Master Lease shall not be applicable to this Sublease: Sections 1.2 (except with respect to Master Landlord's address), 2.2, 2.3, 2.4, 2.5, 2.6, 7.2.E., 7.2.H., Article 3, Sections 9.2, 10.2, 10.3, 10.4, 11.2, 12.1, 15.7 (except with respect to providing notice to Master Landlord), 15.11, Paragraphs 1, 2, 12 and 15 of the Lease Rider and Exhibits B and E. Where references are made in the Master Lease to the "Premises", the same shall be deemed to refer to the Subleased Premises hereunder; where references are made in the Master Lease to the "Commencement Date," the same shall be deemed to refer to the Commencement Date hereunder; where references are made to the Master Lease to "Base Monthly Rent", the same shall be deemed to refer to Monthly Base Rent hereunder; where references are made under the Master Lease to "Additional Rent", the same shall be deemed to refer to Additional Rent hereunder; and where references are made in the Master Lease to "this Lease" the same shall be deemed to refer to this Sublease.

(b) It is understood by Subtenant that the services, repairs and alterations referred to herein to be furnished in accordance with the provisions of the Master Lease will in fact be furnished by Master Landlord and not by Sublandlord. Sublandlord shall not be liable to Subtenant nor shall Subtenant's obligations hereunder be impaired or the performance thereof excused because of any failure or delay on Master Landlord's part in furnishing any such service or in making any of such repairs or alterations unless and to the extent that Sublandlord reasonably agrees that Sublandlord's performance of such obligations is excused pursuant to the terms of the Master Lease. Notwithstanding the foregoing, to the extent any default by Master Landlord results in a waiver or deferral of the performance of any of Sublandlord's obligations under the Master Lease, the same obligations of Subtenant hereunder shall be similarly waived or deferred, as applicable, but all other obligations of Subtenant shall remain in full force and effect. Sublandlord agrees that if Master Landlord fails to provide any thing or service which Master Landlord is required to provide pursuant to the terms of the Master Lease, or otherwise defaults thereunder, Sublandlord will, upon the written request of Subtenant and at Subtenant's cost and expense (except to the extent that such costs and expenses are reimbursed by Master Landlord to Sublandlord), provide such assistance as Subtenant may reasonably request, including without limitation, making a claim and/or demand on Master Landlord in the name of Sublandlord, to effect a cure of such default by Master Landlord or otherwise. Likewise, if Sublandlord defaults under the Master Lease, Subtenant shall have the

right (subject to any applicable notice and cure provisions in the Master Lease and in this Sublease and subject to the consent of Master Landlord being first had and obtained), but not the obligation, to cure any such default, on behalf of Sublandlord and at Sublandlord's cost and expense, including, without limitation, offsetting any costs and expenses incurred by Subtenant against Monthly Base Rent and Additional Rent payable hereunder (provided that Subtenant may not exercise the foregoing right of offset if Sublandlord has notified Subtenant that Sublandlord is disputing such alleged default in good faith and Master Landlord has not availed itself of any of its remedies under the Master Lease which would impair the continued existence of this Sublease). It is further understood by Subtenant that its rights with respect to the repair and restoration of the Subleased Premises or the Building, its rights as to the use and application of insurance proceeds and condemnation proceeds, its rights to rent abatement and its right to terminate this Sublease in the event of damage to or condemnation of all or any part of the Subleased Premises or the Building are all subject to the prior rights, if any, of Master Landlord. All expenses incurred by Master Landlord in connection with the Landlord Consent (as defined herein) shall be paid one-half by each party hereto.

(c) It is further understood by Subtenant that Sublandlord will not be obligated to comply with Master Landlord's responsibilities pursuant to Section 4.2 of the Master Lease relating to "Compliance with Law", and Section 11.1 relating to "Landlord's Duty to Restore" and Paragraph 16 of the Lease Rider relating to "Adjacent Property Rights." In addition, notwithstanding anything herein to the contrary, only Master Landlord exclusively, not Sublandlord, shall have the rights of "Landlord" pursuant to the following provisions of the Master Lease as incorporated herein: Sections 4.3, 4.4, 4.5, 5.2 (provided, however, such alterations and improvements shall not materially impair Sublandlord's Point of Presence and conduits pursuant to Sections 2.2 and 2.3 hereof, and Subtenant shall provide notice to Sublandlord in each case in which notice is provided to Master Landlord pursuant to Section 5.2 of the Master Lease), 6.3, 7.2(D), 7.2(G), Article 8, 11.2, 11.3, 12.1 and 12.5. Notwithstanding anything to the contrary contained in this Sublease, the parties agree and acknowledge that any right to terminate the leasehold interest by Subtenant shall only be with respect to the Sublease and not the Master Lease, and Sublandlord shall retain the right to terminate the Master Lease pursuant to the terms thereof. Any attempt by Subtenant to terminate the Master Lease shall be null and void.

4.3 Master Lease in Full Force and Effect. Sublandlord represents, covenants and agrees that: (i) a true, correct and complete copy of the Master Lease is attached hereto as Exhibit B and there exist no other agreements between Master Landlord and Sublandlord governing the use or occupancy of the Subleased Premises; (ii) the Master Lease is in full force and effect and has not been amended, supplemented or otherwise changed; (iii) to the best of Sublandlord's knowledge, Sublandlord is not in default under the Master Lease (and no set of circumstances exists which, with the passage of time or giving of notice, would constitute a default thereunder); (iv) Sublandlord has paid and performed all obligations required to be paid or performed by Sublandlord under the Master Lease through the date the Sublease term commences; (v) Sublandlord has no knowledge of any default by Master Landlord under the Master Lease; (vi) the term of the Master Lease expires on September 30, 2014; and (vii) and the provisions of the Master Lease will not be waived, modified, amended or surrendered by Sublandlord in any manner so as to prevent or adversely affect the use by Subtenant of the Subleased Premises in accordance with the terms of this Sublease, nor as to impose any greater

obligations on Subtenant than are imposed on Subtenant under this Sublease, or provide to Subtenant any lesser rights than are provided to Subtenant under this Sublease, without the prior written consent of Subtenant in each instance.

5. Effectiveness of Sublease. This Sublease shall be effective on the Closing Date except for the following provisions of this Sublease, which shall become effective as of the date of this Sublease: Sections 3, 15, 19, 20, 21, 22, 23, 24 and 25. The parties hereto acknowledge that one of the conditions to the closing is that Master Landlord must provide its written consent to this Sublease pursuant to the Landlord Consent. Sublandlord agrees to use commercially reasonable efforts to obtain the consent of Master Landlord. If the Closing Date is not on or before December 1, 2003 (or such later date as the parties may mutually agree), this Sublease will be deemed to be null and void and neither party will have any liability or obligation to the other party hereunder.

6. Term, Possession and Condition of Subleased Premises.

6.1 Term. The term (the "Term") of this Sublease is for the period which commences on the Closing Date (the "Commencement Date"), and expires on September 29, 2014, unless sooner terminated pursuant to the terms of this Sublease.

6.2 Possession. Possession of the Subleased Premises will be delivered to Subtenant on the Commencement Date.

6.3 Condition of Subleased Premises. Subtenant acknowledges and agrees that (i) it has inspected the Subleased Premises to the extent that it deems necessary prior to the execution of this Sublease, (ii) it accepts the Subleased Premises in "AS-IS WHERE IS" condition and (iii) neither Sublandlord nor Master Landlord shall have any obligation with respect to alterations, repairs or refurbishment of the Subleased Premises, except as may otherwise be specifically set forth in this Sublease. In the event that any improvements or alterations are permitted by Master Landlord, the removal thereof upon the termination of this Sublease will be the responsibility of Subtenant, all in accordance with the Master Lease. Subtenant also hereby assumes and agrees to perform any and all obligations of Sublandlord under the Master Lease with respect to (i) the removal of personal property, equipment, trade fixtures and leasehold improvements from the Subleased Premises, and (ii) the surrender of the Subleased Premises at the expiration of the Term of this Sublease in the condition required by the Master Lease irrespective of whether or not such items were placed upon or installed in the Subleased Premises by or at the direction of Subtenant or Sublandlord. Notwithstanding anything to the contrary contained herein, Subtenant's obligations with respect to the removal of Tenant Improvements and Tenant Alterations from and the restoration of the Subleased Premises or the Building as required under the Master Lease shall be governed by the provisions of the Consent of Master Landlord attached hereto as Exhibit C and incorporated herein by this reference (the "Landlord Consent"), if Subtenant and Master Landlord enter into the New Lease (as defined in the Landlord Consent). The provisions of this Section 6.3 shall survive the termination or expiration of this Sublease.

7. Rent.

7.1 Rent. Subtenant shall pay to Sublandlord as "Monthly Base Rent" the following amounts: (i) during the first two (2) years of the Term, an amount equal to [] payable by Sublandlord under the Master Lease; and (ii) thereafter, for the remainder of the Term, Subtenant shall pay to Sublandlord, [*] payable by Sublandlord under the Master Lease. Notwithstanding the immediately previous sentence or anything to the contrary contained herein, (x) if a Subtenant Default occurs during the first 2-years of the Term, the Monthly Base Rent payable by Subtenant shall increase to [*]; and (y) if a Subtenant Default occurs after the initial two years of the Term, Subtenant shall, within thirty (30) days of Sublandlord's written demand, pay to Sublandlord an amount equal to [*] multiplied by the number of days elapsed from the Commencement Date until the date on which Subtenant's Default occurred, but not to exceed a total of [*], as well as all unpaid and accrued rental amounts. The foregoing sentence shall not limit and the Sublandlord shall have available to it all other non-monetary remedies available to it pursuant to Section 13.2 of the Master Lease. As used herein, "Subtenant Default" shall mean a default by Subtenant hereunder that continues beyond any applicable grace, notice and cure periods. Subtenant agrees to commence paying an amount equal to [*] in advance for the first month of the Term on the Commencement Date and to make rent payments thereafter on the first day of each month during the remaining Term of this Sublease. All rental amounts hereunder for any partial month will be prorated on the basis of the actual number of days elapsed. Except as expressly permitted in this Sublease, all rental amounts hereunder shall be payable to Sublandlord without notice, demand, deduction, offset or abatement in lawful money of the United States of America at P.O. Box 219061, Kansas City, MO 64121-9061 or to such other person or at such other address as Sublandlord may designate in writing. If any Monthly Base Rent or Additional Rent is not received by Sublandlord from Subtenant within five (5) days of the later of (i) when due or (ii) after written notice to Subtenant that the same has not been received by Sublandlord (provided such notice for late payment has not previously been given in the preceding twelve months), then Subtenant shall immediately pay to Sublandlord a late charge equal to the lesser of any penalties, default interest charges or other similar costs computed based on the delinquent amount actually incurred by Sublandlord under the Master Lease by reason of Subtenant's late payment or [*] percent ([*]%) of such delinquent rent, as liquidated damages for Subtenant's failure to make timely payment. If any rent remains delinquent for a period in excess of thirty (30) days then, in addition to such late charge, Subtenant shall pay to Sublandlord interest on any rent that is not paid when due at the Agreed Interest Rate following the date such amount became due until paid. This paragraph shall not be deemed to grant Subtenant an extension of time within which to pay rent or prevent Sublandlord from exercising any other right or remedy.

7.2 Other Charges. Subtenant shall pay all sales and uses taxes levied or assessed against all rent payments due under this Sublease (if any) simultaneously with each payment required hereunder. Subtenant shall pay directly to Sublandlord all of those costs, expenses, additional rent and all other amounts (defined as "Additional Rent" in the Master Lease) payable to Master Landlord under the Master Lease, including, but not limited to, those

CONFIDENTIAL TREATMENT REQUESTED. CONFIDENTIAL PORTION HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

amounts payable under Sections 3.2 and 8.1 of the Master Lease. Notwithstanding anything to the contrary contained in this Sublease, Subtenant shall not be responsible for any charges, costs, expenses or similar items ("Charges") deemed to be Additional Rent if and to the extent said Charges are incurred as a result of Sublandlord in its role as Tenant under Master Lease breaching its representations, warranties and covenants thereunder (including, without limitation, damages claimed by Master Landlord, indemnification obligations owed to Master Landlord, enforcement fees owed to Master Landlord and costs of discharging mechanic's liens arising through Sublandlord) which have not been assumed by Subtenant hereunder. In addition, Additional Rent shall not include premiums for insurance policies required to be maintained by Sublandlord (in its capacity as tenant under the Master Lease) pursuant to the Master Lease, and Excess rent required to be paid by Sublandlord pursuant to Article 14 of the Master Lease. Subtenant agrees to pay any and all such Additional Rent in estimated equal monthly installments or as may otherwise be required under the terms of the Master Lease. During the Term, Master Landlord may be permitted to adjust the amounts of such installments payable under the Master Lease. In such event, Sublandlord may adjust the amount of the installments due hereunder and, at the end of each calendar year during the Term, an adjustment will be made to compensate for any overage or shortfall with respect to the monthly estimated installments paid versus the actual real estate taxes, insurance, common area maintenance costs, management fees and the like owed, as and when provided in the Master Lease. To the extent Master Landlord has not agreed to do so pursuant to the Landlord's Consent, Sublandlord shall promptly forward to Subtenant any statements received from Master Landlord relating to the payment of Common Operating Expenses and annual reconciliations thereof.

If Subtenant so requests, Sublandlord shall, at no cost or expense to Sublandlord, exercise the right to contest Real Property Taxes pursuant to Section 8.3 of the Master Lease. If Subtenant so requests, Sublandlord shall cause an audit of Master Landlord's books and records as permitted and in the manner provided for under Section 8.1 of the Master Lease. Any and all costs incurred by Sublandlord shall be borne by Subtenant and shall be considered Additional Rent. To the extent Master Landlord is not ultimately required to bear the costs of such audit in accordance with the Master Lease, the costs of such audit shall be borne by Subtenant, but in no event shall be Sublandlord be liable for such costs. Regardless of whether Subtenant elects to cause an audit of Master Landlord's books and records, if Sublandlord's payments toward Common Operating Expenses exceed the total payments made by Subtenant, Subtenant shall pay Sublandlord the deficiency within thirty (30) days of the date of Sublandlord's statement. If the total payments by Subtenant, as determined pursuant to the audit, exceed the total actual amount of Additional Rent owed by Subtenant, Subtenant's excess payment shall be refunded to Subtenant within thirty (30) days of the date of Sublandlord's statement, and if not refunded within thirty (30) days, may be offset by Subtenant against the next installment of Monthly Base Rent and Additional Rent payable hereunder. For any partial calendar year at the commencement or termination of this Sublease, Subtenant's Additional Rent for such year shall be prorated for the number of days this Sublease is in effect during such year. Notwithstanding the termination of this Sublease, within thirty (30) business days after Subtenant's receipt of Sublandlord's statement regarding Additional Rent in the calendar year in which this Sublease terminates, Subtenant shall pay to Sublandlord or shall receive from Sublandlord, as the case may be, an amount equal to the difference between the actual amount of Additional Rent (as prorated) and the amount previously paid by Subtenant toward Additional Rent.

7.3 Survival. Subtenant's obligation to pay all rental amounts hereunder and to remove alterations and improvements (except as provided in Section 4.2(ii) hereof), as well as any other obligation of Subtenant hereunder which is not fully satisfied at the termination of this Sublease, will survive the termination of this Sublease. Sublandlord's obligation to refund to Subtenant any overpayments of Additional Rent shall also survive the termination of this Sublease.

8. Use. The Subleased Premises may be used and occupied during the Term of this Sublease only for those purposes for which the Premises may be used and occupied by Sublandlord pursuant to the terms of the Master Lease. Subtenant must, at Subtenant's expense, comply promptly with all applicable statutes, ordinances, rules, regulations, orders, restrictions of record and requirements in effect during the Term or any part of the Term hereof regulating the use by Subtenant of the Subleased Premises.

9. Indemnity. Subtenant hereby indemnifies and agrees to hold Sublandlord and Master Landlord harmless from and against any and all claims, liabilities or losses incurred by Sublandlord or Master Landlord arising out of any breach by Subtenant of any of the terms of, or its representations contained in, this Sublease, for bodily injury to or death of any person or damage to any property arising out of Subtenant's use of the Subleased Premises or from the conduct of Subtenant's business, or from any activity, work or thing done, permitted or suffered by Subtenant in or about the Subleased Premises or the Building, except:

(a) claims and liabilities occasioned in whole or in part by the grossly negligent acts or omissions of the indemnified party, its agents or employees; and

(b) claims or liabilities for property damage addressed in Section 10 of this Sublease entitled "Mutual Waiver of Claims".

Sublandlord hereby indemnifies and agrees to hold Subtenant and Master Landlord harmless from and against any and all claims, liabilities or losses incurred by Subtenant or Master Landlord arising out of any breach by Sublandlord of any of the terms of, or its representations contained in, this Sublease or any terms of the Master Lease for which Sublandlord has retained responsibility pursuant to the terms and provisions of this Sublease, and for bodily injury to or death of any person or damage to any property arising out of Sublandlord's Point of Presence at the Subleased Premises or from the conduct of Sublandlord's business related thereto, or from any activity, work or thing done, permitted or suffered by Sublandlord in or about the Subleased Premises or the Building pursuant to the MSA, except:

(c) claims and liabilities occasioned in whole or in part by the grossly negligent acts or omissions of the indemnified party, its agents or employees; and

(d) claims or liabilities for property damage addressed in Paragraph 10 of this Sublease entitled "Mutual Waiver of Claims".

In addition, Sublandlord hereby indemnifies and agrees to hold Subtenant harmless from and against all claims, liabilities or losses suffered by Subtenant as a result of the "Release" (as defined below) with respect to the Project. For purposes of this Sublease, a Release is that certain incident reported to the California Office of Emergency Services on May 31, 2002, and assigned spill number 05/31/2002 02-2920 (also known by the Santa Clara Water Board as case number SCVWDID #06S1W27K01f, LOP).

The foregoing indemnities include all reasonable costs, attorneys' fees and expenses incurred in the defense of any such claim or any action or proceeding brought thereon.

10. Mutual Waiver of Claims. Sublandlord and Subtenant do each hereby release and relieve the other and Master Landlord, and waive their entire claim of recovery against the other party and/or Master Landlord for loss or damage to property arising out of or incident to fire, lightning or any other perils normally included in an "all-risks" property insurance policy when such property constitutes the Subleased Premises or the Building or is in, on or about the Subleased Premises, the Building or the land on which the Building is situated, whether or not such loss or damage is due to the negligence of Sublandlord, Subtenant or Master Landlord, their agents, employees, guests, licensees, invitees or contractors, to the extent such loss or damage is covered by such insurance.

11. Default. The notice and grace period provisions contained in the Master Lease shall apply to any default by Subtenant hereunder. If Subtenant defaults in the payment of any rental amounts hereunder or any other sum required to be paid hereunder by Subtenant, or in the performance of any of its other obligations under this Sublease or the Master Lease beyond any applicable notice or grace period Sublandlord shall have the same rights and remedies against Subtenant as Master Landlord has against Sublandlord in the event of Sublandlord's default under the Master Lease; provided, however, that any damages recoverable by Sublandlord shall be computed based on the Monthly Base Rent and Additional Rent payable under this Sublease. Such rights and remedies shall be cumulative with all other rights and remedies which Sublandlord may otherwise have under applicable law.

12. Transfer of Subleased Premises.

12.1 Neither this Sublease nor the Term and estate hereby granted, or any part hereof or thereof, may be assigned, mortgaged, pledged, encumbered or sublet without first obtaining the express written consent of: (i) Sublandlord, such consent not to be unreasonably withheld; and (ii) Master Landlord, which consent shall be granted or denied in accordance with the provisions of the Master Lease.

12.2 Any request for Sublandlord's or Master Landlord's consent to a proposed assignment or subletting of the Subleased Premises or any portion thereof shall be in writing (hereinafter referred to as "Subtenant's Notice") and shall set forth the proposed subtenant's or assignee's name, address, nature or character of business, and then current financial statements of the proposed subtenant or assignee, and the terms and conditions of the proposed subletting. Any consent to subletting or assignment which may be given by Sublandlord shall not constitute a waiver by Sublandlord of the provisions of this Section 12, or a release of Subtenant from the full performance by it of the covenants on the part of Subtenant herein contained. Any violation of any provision of this Sublease by any subtenant shall be deemed a violation of such provision by Subtenant.

12.3 Any subletting or assignment permitted hereunder shall, with respect to the use of the Subleased Premises, be subject to and shall not violate the restrictive provisions of this Sublease and the provisions of the Master Lease.

12.4 If, for any proposed assignment or sublease, Subtenant receives rent or other consideration, either initially or over the term of the assignment or sublease, in excess of the rent called for hereunder or, in case of the sublease of a portion of the Subleased Premises, in excess of such rent fairly attributable to such portion, after appropriate adjustments to ensure that all other payments called for hereunder are taken into account, Subtenant shall pay to Sublandlord, as additional rent hereunder, all of the profit realized by Subtenant promptly after its receipt. Such profit shall be calculated after deducting from gross rentals all costs incurred by Subtenant in connection with such transaction, including real estate commissions, legal fees, concessions, tenant improvement allowances, advertising costs, and the like. To the extent that Master Landlord successfully asserts a claim to collect any portion of such profits, they shall be paid equally by Subtenant and Sublandlord from their respective shares of such profit.

12.5 Notwithstanding anything herein to the contrary, Sublandlord's consent shall not be required hereunder for any agreements with Customers for which Master Landlord's consent is not required pursuant to Section 14.1D of the Master Lease. In addition, Sublandlord shall not be entitled to share in any of Subtenant's profits, rents or income derived in connection with any Customer's use of the Subleased Premises.

13. Insurance. Subtenant agrees to maintain during the Term hereof at least the minimum insurance described in Section 9.1 of the Master Lease. Sublandlord and Master Landlord must be named as an additional insured on the commercial general liability insurance coverage. A certificate evidencing such insurance coverages shall be delivered to Sublandlord and Master Landlord on or before the first to occur of the Commencement Date or the date when Subtenant shall enter into possession of the Subleased Premises. Each of Sublandlord and Subtenant shall cause its insurance carriers to waive all rights of subrogation against the other party hereto to the extent of Sublandlord's and Subtenant's undertakings set forth in Section 10 of this Sublease. Notwithstanding anything to the contrary contained herein or in the Master Lease, Subtenant shall be exclusively entitled to all insurance proceeds arising under any fire and property damage insurance policies maintained by Subtenant on Subtenant's personal property, equipment and trade fixtures.

14. Sublandlord's Options Pursuant to the Master Lease. Sublandlord and Subtenant agree that all options that Sublandlord has pursuant to the Master Lease, i.e., Sublandlord's Option to Extend pursuant to Paragraph 2 of the Lease Rider to the Master Lease and Sublandlord's Right of First Offer to Purchase pursuant to Paragraph 15 of the Sublease shall be subordinate to Subtenant's obligation and option to enter into the New Lease with Master Landlord as provided in the Landlord Consent. Sublandlord also agrees that while this Sublease remains in effect, Sublandlord shall neither have the right to nor exercise any such option without the prior written consent of Subtenant, which consent may be granted or withheld in Subtenant's sole and absolute discretion.

15. Notices. Except as otherwise provided in the Master Lease with respect to notices to Master Landlord or as hereinafter provided as to notices of default by Sublandlord and

Subtenant, any notice required or permitted to be given hereunder shall be in writing and shall be effective only (a) three (3) days after deposit in a sealed envelope in the United States mail, postage prepaid, by registered or certified mail, return receipt requested, addressed to the recipient at the address set forth below, (b) the next business day following deposit with an overnight courier service, with next day delivery charges prepaid, or (c) upon receipt if delivered by facsimile transmission. Notices to Subtenant shall be addressed to Equinix Operating Co., Inc., 301 Velocity Way, 5th Floor, Foster City, CA 94404, Attention: Director of Real Estate, Facsimile No. (650) 513-7909, with a copy to Equinix Operating Co., Inc., 301 Velocity Way, 5th Floor, Foster City, CA 94404, Attention: General Counsel, Facsimile No. (650) 513-7909, and notices to Sublandlord shall be addressed to Sprint Communications Company, L.P., 6200 Sprint Parkway, KSOPHF 0302-3B679, Overland Park, KS 66251, Attention: Legal-Corporate Transactions, Facsimile No. (913) 794-0144, with copy to Sprint Communications Company, L.P., 6450 Sprint Parkway, KSOPHN 0314-3A671, Overland Park, KS 66251, Attention: Real Estate Attorney, Facsimile No. (913) 315-0708. Anything hereinbefore to the contrary notwithstanding, notices of default may only be sent by certified or registered mail pursuant to (a), above.

16. Broker's Commissions. Sublandlord and Subtenant each hereby represents and warrants to the other and to Master Landlord that neither party entered into any agreement with any broker, agent, finder or other party for the payment of a broker's or agent's commission, finder's fee or like compensation payable in connection with Sublandlord and Subtenant entering into this Sublease. Sublandlord and Subtenant each hereby agrees to indemnify and hold the other and Master Landlord harmless from and against any and all claims, demands, damages, losses or causes of action related to or arising out of any such agreement entered into by the indemnifying party for the payment of any such commission, fee or like compensation.

17. Security Interest. Sublandlord hereby waives any security interest pursuant to the Uniform Commercial Code of the State of California or other California law that Sublandlord may have in all of the personal property, equipment and trade fixtures used or to be used by Subtenant in connection with its use and operation of the Subleased Premises.

18. Personal Property. Sublandlord and Subtenant are simultaneously entering into a certain Bill of Sale and Conveyance Agreement (the "Bill of Sale"), which will become effective on the Closing Date, pursuant to which Sublandlord will transfer to Subtenant certain items of tangible personal property, as provided in the Bill of Sale. Any sales taxes associated with the transfer of such personal property will be paid for as provided in the Bill of Sale.

19. Casualty and Eminent Domain. In the event of a fire or other casualty affecting the Subleased Premises, or of a taking of all or a part of the Subleased Premises under the power of eminent domain, Sublandlord shall not exercise any rights which it may have permitting it to terminate or continue with the Master Lease as a result of a casualty or condemnation without first obtaining the prior written consent of Subtenant. If Subtenant fails to respond to such written request by Sublandlord to Subtenant within ten (10) days, then consent will be deemed to have been given. If the Master Lease imposes on Master Landlord, the obligation to repair or restore leasehold improvements or alterations, Subtenant shall permit Master Landlord to enter the Subleased Premises to perform the same. Subtenant shall have the right to terminate the Sublease as a result of a casualty or condemnation to the extent Sublandlord has the right to

terminate the Master Lease as a result of such event. To the extent Sublandlord is entitled to an abatement of its obligation to pay rent pursuant to the Master Lease as a result of the occurrence of a casualty or condemnation, Subtenant shall also be entitled to an abatement of Monthly Base Rent and Additional Rent with respect to the Subleased Premises. Notwithstanding anything herein to the contrary, if the Master Lease is validly terminated by Master Landlord following a casualty or condemnation, this Sublease shall also terminate.

20. Entire Agreement. This Sublease, including the terms of the Master Lease which are incorporated herein by reference, contains the entire agreement between the parties concerning the subject matter hereof and supersedes all prior and contemporaneous agreements, understandings, terms, warranties and representations, whether oral or written, made by the parties concerning the matters covered by this Sublease.

21. Confidentiality. Subtenant and Sublandlord shall each maintain as confidential any and all non-public material obtained about the other and the transactions contemplated hereby, and shall not, except as required by law or governmental regulation applicable to Sublandlord or Subtenant, disclose such information to any third party. Notwithstanding the foregoing, Subtenant and Sublandlord shall have the right to disclose such information to their respective lenders or their employees and agents and such other persons whose assistance is required in carrying out the terms of this letter provided that all such persons are told that such information is confidential and agree (in writing for any third party consultants) to keep such information confidential. Subtenant and Sublandlord shall each have the right to publicize the consummation of this Sublease (other than the monetary terms) in whatever manner each deems appropriate; provided, however, that any press release or other public disclosure regarding the transactions contemplated herein, and the wording of same, must be approved in advance by both parties. Notwithstanding anything herein or in any other written or oral understanding or agreement to which the parties hereto are parties or by which they are bound, either party (or its representative, agents or employees) may (i) consult any tax advisor regarding the tax treatment and tax structure of the transaction contemplated by this Sublease and (ii) may at any time disclose to any person, without limitation of any kind, the tax treatment and tax structure of such transaction and all materials of any kind (including opinions or other tax analyses) that are provided relating to such tax treatment or tax structure. The provisions of this paragraph shall survive the termination of this Sublease.

22. Severability. The illegality, invalidity or unenforceability of any term, condition or provision of this Sublease shall in no way impair or invalidate any other term, condition or provision of this Sublease, and all such other terms, conditions and provisions shall remain in full force and effect.

23. Attorneys' Fees. If any party hereunder brings an action to enforce the terms or to declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to recover its actual attorneys' fees and costs of suit from the non-prevailing party.

24. Successors and Assigns. This Sublease shall be binding upon the parties hereto and upon their respective successors and assigns.

25. Governing Law. This Sublease will be governed by the law of the State of California, without regard to its choice of law rules.

26. Authority to Sign. Each party hereby represents and warrants to the other that the person or entity signing this Sublease on behalf of such party is duly authorized to execute and deliver this Sublease and to legally bind the party on whose behalf this Sublease is signed to all of the terms, covenants and conditions contained in this Sublease.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties have executed this Sublease as of the day and year first above written.

SUBLANDLORD:

SPRINT COMMUNICATIONS COMPANY, L.P.

By: /s/ Robert J. Dellinger

Name: Robert J. Dellinger

Title: EVP & CFO

SUBTENANT:

EQUINIX OPERATING CO., INC.

By: /s/ Renee F. Lanam

Name: Renee F. Lanam

Title: CFO

Please quote our reference when replying
Our Ref : JTC(L) 7329/30

JTC Corporation
The JTC Summit
8 Jurong Town Hall Road
Singapore 609434
telephone: (65) 560 0056
facsimile: (65) 565 5301
website: www.jtc.gov.sg

EQUINIX SINGAPORE PTE. LTD.
51 CUPPAGE ROAD
#10-11/17
Singapore (229469)

BY LOCAL URGENT MAIL

(Attention: LEE YOONG KIN):

Dear Sirs,

OFFER OF TENANCY FOR FLATTED FACTORY SPACE

1. We are pleased to offer a tenancy of the Premises subject to the following covenants, terms and conditions in this letter and in the annexed Memorandum of Tenancy ("the Offer"):
 - 1.01 Location:

Pte Lot A0037000, Blk 20 ("the Building") Unit #03-01 /02 /0 3 /04, AYER RAJAH CRESCENT AYER RAJAH INDUSTRIAL ESTATE SINGAPORE 139964 ("the Premises") as delineated and edged in red on the plan attached to the Offer.
 - 1.02 Term of Tenancy:

3 years ("the Term") with effect from 1 December 2003 ("the Commencement Date").
 - 1.03 Tenancy Agreement:

Upon due acceptance of the Offer in accordance with clause 2 of this letter, you shall have entered into a tenancy agreement with us ("the Tenancy") and will be bound by the covenants, terms and conditions thereof.

In the event of any inconsistency or conflict between any covenant, term or condition of this letter and the Memorandum of Tenancy, the relevant covenant, term or condition in this letter shall prevail.

1.04 Area:

Approximately 1,450.30 square metres (subject to survey).

1.05 Rent and Service Charge:

- (a) Discounted rate of \$16.38 per sq metre per month for so long as the Tenant shall occupy by way of tenancy an aggregate floor area of 9449.7 square metres in the Building or in the various flatted factories belonging to the Landlord, and
- (b) Normal rate of \$18.00 in the event that the said aggregate floor area occupied is at any time reduced to below 9449.7 square metres (when the discount shall be totally withdrawn) with effect from the date of reduction in the said aggregate floor, (“Rent”) to be paid without demand and in advance without deduction on the 1st day of each month of the year (i.e. 1st of January, February, March, etc.). The next payment shall be made on 01 January 2004.

Service charge:

\$4.50 per square metre per month, (“Service Charge”) as charges for services rendered by us, payable without demand on the same date and in the same manner as the Rent, subject to our revision from time to time.

1.05(a) Air-conditioning Charge:

\$0.008 per square metre per hour as charges for air-conditioning utility rendered by us, payable without demand on the same date and in the same manner as the Rent, subject to our revision from time to time in the same manner as the Service Charge.

1.06 Security Deposit/Banker’s Guarantee:

You will at the time of acceptance of the Offer be required to place with us a deposit equivalent to 3 months’ Rent (at the discounted rate payable in the third year of the Term) and Service Charge PLUS the Air-conditioning Charge (“Security Deposit”) as security against any breach of the covenants, terms and conditions in the Tenancy.

The Security Deposit may be in the form of cash and/or acceptable Banker’s Guarantee in the form attached (effective from 1 October 2003 to 28 February 2007) and/or such other form of security as we may in our absolute discretion permit or accept.

The Security Deposit must be maintained at the same sum throughout the Term and shall be repayable to you without interest or returned, to you for cancellation, after the termination of the Term (by expiry or otherwise) or expiry of the Banker's Guarantee, as the case may be, subject to appropriate deductions or payment to us for damages or other sums due under the Tenancy.

If the Rent at the discounted rate is increased to the normal rate or Service Charge is increased or any deductions are made from the Security Deposit, you are to immediately pay the amount of such increase or make good the deductions so that the Security Deposit shall at all times be equal to 3 months' Rent and Service Charge PLUS the Air-conditioning Charge.

1.07 Mode of Payment:

Except for the payment to be made with your letter of acceptance pursuant to paragraph 2 of this letter, which payment shall be by non-cash mode (eg cashier's order, cheque etc), during the Term, you shall pay Rent, Service Charge and GST by Interbank GIRO or any other mode to be determined by us

[Note: Accordingly, you are to provide us with the duly completed GIRO authorization form enclosed herewith.

However, pending finalisation for the GIRO arrangement, you shall pay Rent, Service Charge and GST as they fall due by cheque].

1.08 Permitted Use:

- (a) Subject to clause 1.12 of this letter, you shall commence full operations within four (4) months of the Commencement Date for the purpose to provide internet data centre hostings for telecommunication, internet and application service providers only and for no other purpose whatsoever ("the Authorised Use").
- (b) Thereafter, you shall maintain full and continuous operations and use and occupy the whole of the Premises for the Authorised Use.

1.09 Approvals

The Tenancy is subject to approvals being obtained from the relevant government, and statutory authorities.

1.10 Possession of Premises:

- (a) Keys to the Premises will be given to you two months prior to the Commencement Date subject to due acceptance of the Offer (Possession Date”).
- (b) From the Possession Date until the Commencement Date, you shall be deemed a licensee upon the same terms, and conditions in the Tenancy.
- (c) if you proceed with the Tenancy after the Commencement Date, the licence fee payable from the Possession Date to the Commencement Date shall be waived (“Rent-Free Period”). Should you fail to so proceed, you shall:
 - (i) remove everything installed by you;
 - (ii) reinstate the Premises to its original state and condition; and
 - (iii) pay us a sum equal to the prevailing market rent payable for the period from the Possession Date up to the date the installations are removed and reinstatement completed to our satisfaction,without prejudice to any other rights and remedies we may have against you under the Tenancy or at law.

1.11 Preparation and Submission of Plans:

- (a) No alteration, addition, improvement, erection, installation or interference to or in the Premises or the fixtures and fittings therein is permitted without Building Control Unit [BCU (JTC Corporation)] prior written consent. Your attention is drawn to clauses 2.10 to 2.19 and 2.34 of the Memorandum of Tenancy.
- (b) You will be required to prepare and submit floor layout plans of your factory in accordance with the terms of the tenancy and the ‘Guide’ attached. It is important that you should proceed with the preparation and submission of the plans in accordance with the procedures set out in the said ‘Guide’.

-
- (c) Should there be alteration of existing automatic fire alarm and sprinkler system installation, alteration plans shall be submitted to Building Control Unit [BCU(JTC Corporation)] for approval on fire safety aspects. All fire alarm & sprinkler system plans must be signed by a relevant Professional Engineer, registered with the Professional Engineers Board of Singapore.
 - (d) Upon due acceptance of the Offer, a copy of the floor and elevation plans (transparencies) will be issued to you to assist in the preparation of the plans required herein.
 - (e) No work shall commence until the plans have been approved by Building Control Unit [BCU(JTC Corporation)].
 - (f) Kindly note that at present URA requires you to use and occupy at least sixty per cent (60%) of the gross floor area of the Premises for industrial activities and ancillary warehousing activities; and you may use and occupy the remaining gross floor area, if any, for offices, showrooms, neutral areas or communal facilities and such other uses as may be approved in writing by us and the relevant governmental and statutory authorities. Nonetheless, as provided in paragraph 1.08, you shall ensure that the Premises:
 - i) are used primarily for the industrial activities stipulated in the authorised use approved by us; and
 - ii) are not used or occupied for the purposes of offices, showrooms, storage, warehousing, industrial activities unrelated to such authorised use or for any other use unless approved in writing by us and the relevant governmental and statutory authorities.

1.12 Final inspection:

You shall ensure that final inspection by us of all installations is carried out and our approval of the same is obtained before any operations in the Premises may be commenced.

1.13 Special Conditions:

(1) Normal (Ground & Non-ground) Floor Premises

You shall comply and ensure compliance with the following restrictions:

- (a) maximum loading capacity of the goods lifts in the Building; and
- (b) maximum floor loading capacity of 12.5 kiloNewtons per square metre of the Premises on the 3rd storey of the Building PROVIDED THAT any such permitted load shall be evenly distributed.

We shall not be liable for any loss or damage that you may suffer from any subsidence or cracking of the ground floor slabs and aprons of the Building.

- (2) You shall comply and ensure compliance with all notices, rules, and regulations relating to the use of the Carpark (as defined in the Memorandum of Tenancy} including but not limited to:
 - (i) parking or placing of container, vehicles, trailers or other carriages; and
 - (ii) parking charges.
- (3) You are to connect the mechanical ventilation system in the Premises to the switchboard installed by you, subject to clauses 2.12, 2.13 and 2.14 of the Memorandum of Tenancy.

(4) Option for renewal of tenancy:

- (a) You may within 3 months before the expiry of the Term make a written request to us for a further term of tenancy.
- (b) We may grant you a further term of tenancy of the Premises upon mutual terms to be agreed between you and us subject to the following:
 - (i) there shall be no breach of your obligations at the time you make your request for a further term;
 - (ii) our determination of revised rent, having regard to the market rent of the Premises at the time of granting the further term, shall be final;

(iii) we shall have absolute discretion to determine such covenants, terms and conditions, but excluding a covenant for renewal of tenancy; and

(iv) there shall not be any breach of your obligations at the expiry of the Term.

(5) Third Party Rights:

A person who is not a party to the Tenancy shall have no right under the Contracts (Rights of Third Parties) Act (as amended or revised from time to time) to enforce any of its covenant, term or condition.

2. Mode of Acceptance:

The Offer shall lapse if we do not receive the following by 30 September 2003:

- Duly signed letter of acceptance (in duplicate) of all the covenants, terms and conditions in the Tenancy in the form enclosed at the Appendix. (Please date as required in the Appendix)
- Payment of the sum set out in clause 4.
- Duly completed GIRO authorization form.

3. Please note that payments made prior to your giving us the other items listed above may be cleared by and credited by us upon receipt. However, if the said other items are not forthcoming from you within the time stipulated herein, the Offer shall lapse and there shall be no contract between you and us arising hereunder. Any payments received shall then be refunded to you without interest and you shall have no claim of whatsoever nature against us.

4. The total amount payable is as follows:

	<u>Amount</u>	<u>+4%GST</u>
Rent at \$16.38 psm per month on 1,450.3 sqm for the period 1 April 2004 to 30 April 2004	\$23,755.91	\$ 950.24
<u>Less:</u>	\$ 0.00	0.00
1.5% Off-budget Property Tax Rebate (valid from 01/07/2003 to 31/12/2003)	0.00	
Service Charge at \$4.50 psm per month on 1,450.30 sqm for the period 1 December 2003 to 31 December 2003	\$ 6,526.35	\$ 261.05
Air-conditioning charges at \$0.008 per square metre per hour on 1,450.30 sqm for the period 1 December 2003 to 31 December 2003 computed on 23-working day basis.	\$ 2,668.55	\$ 106.74
* See, Notes below		
Total Rent Payable (inclusive of Service Charge and air-conditioning charge)	\$32,950.82	\$1,318.03
Deposit equivalent to three months' rent (at the <u>discounted rate payable in the third year</u> of the Term) and service charge PLUS 3 months' air-conditioning charge [or Banker's Guarantee provided in accordance with sub-paragraph 1.06 above)	\$98,852.45	

<u>Less:</u>		
Deposit equivalent to two (2) month's rent (at the <u>discounted rate</u> payable <u>in the third year</u> of the Term) and service charge PLUS one month's air-conditioning charge (Off-budget Measure)	\$65,901.63	\$ 32,950.82
Stamp fee payable on Letter of Acceptance which will be stamped by JTC Corporation on your behalf		
Note : If the Letter is not returned to us within 14 days of the date of the Letter, you will have to pay penalty on the stamp duty which is imposed by Stamp Duty Office at IRAS.		\$ 2,656.00 \$1,318.03
Sub-Total Payable		\$ 68,557.63
<u>Add:</u> GST @ 4%		\$ 1,318.03
Total Payable inclusive of GST		\$69,875.66

Notes:

1. This is for the 1st month air-con utility charge based on an average of 23 working days (230 hours) only as part of the deposit. (Mon – Fri 8 a.m. to 6 p.m.) (Sat- 8 a.m. to 1 p.m.)
2. Subsequent air-con utility charges for standard and/or non-standard charges will be computed by the Lease Management Officer of the Customer Service Department/South Zone.
5. Rent-Free Period:
As the Commencement Date will not be deferred, we advise you to accept the Offer as soon as possible and to collect the keys to the Premises on the scheduled date in order to maximize the Rent-Free Period referred to in clause 1.10(c) of this letter.
6. Variation to the Tenancy
This letter and the Memorandum of Tenancy constitute the full terms and conditions governing the Offer and no terms or representation or otherwise, whether express or implied, shall form part of the Offer other than what is contained herein. Any variation, modification, amendment, deletion, addition or otherwise of the covenants, terms and conditions of the Offer shall not be enforceable unless agreed by both parties and reduced in writing by us.
7. Season Parking:
Season parking tickets for car parking lots within the Estate can be purchased from the JTC Zone Office serving the Estate (Contact no. of the South Zone Office is:1800-66654628). Please note that the number of season parking ticket(s) that can be purchased by you will depend on eligibility rules set out by us.
8. Application of Approvals, Utilities etc.
Upon your acceptance of the covenants, terms and conditions of the Offer, you are advised to proceed expeditiously as follows:
 - 8.01 Preliminary Clearance:
Comply with the requirements of the Chief Engineer (Central Building Plan Unit), Pollution Control Department and/or other departments pursuant to your application/s for preliminary clearance. (Please note that we have referred your application to the relevant department/s).
 - 8.02 Discharge of Trade Effluence:
Completed the attached Application for Permission to Discharge Trade Effluent into Public Sewer and return the application form direct to the Head, Pollution Control Department, Ministry of Environment, Environment Building, 40 Scotts Road, Singapore 228231 (Telephone No. 67327733).

8.03 Electricity:

Engage a registered electrical consultant or competent contractor to submit three sets of electrical single-line diagrams to and in accordance with the requirements of our Property Support Department (PSD), Customer Services Group, JTC East Zone Office for endorsement before an application is made to the Power Supply Pte Ltd to open an account for electricity connection. Please contact our Property Support Department (PSD) at Blk 25 Kallang Avenue #05-01 Kallang Basin Industrial Estate Singapore 339416 direct for their requirements.

8.04 Water:

Submit four copies of sketch plans, prepared by a licensed plumber, showing the section and layout of the plumbing, to our Building Control Unit [BCU (JTC Corporation)] for approval prior to the issue of a letter to Water Conservation Department, Public Utilities Board to assist you in your application for a water sub-meter.

8.05 Telephone:

Apply direct to Singapore Telecommunications Ltd for all connections.

8.06 Automatic Fire Alarm System (Incorporating Heat Detector)

Engage a registered electrical consultant/professional engineer to submit two sets of fire alarm drawings, indicating the exiting fixtures if any, the proposed modifications of the fire alarm and the layout of machinery, etc to and in accordance with the requirements of our Building Control Unit; [BCU (JTC Corporation)]. Please contact our Building Control Unit [BCU (JTC Corporation)] at The JTC Summit, One-Stop Centre (1st level) 8 Jurong, Town Hall Road Singapore 609434 direct for further requirements.

8.07 Factory Inspectorate

Complete and return direct to Chief Inspector of Factories the attached form, "Particulars to be submitted by occupiers or intending Occupiers of Factories".

Yours faithfully

/s/ Vanessa Loh

Vanessa LOH
INDUSTRIAL DEVELOPMENT (HIGH-RISE) DEPARTMENT
INDUSTRIAL PARKS DEVELOPMENT GROUP
JTC CORPORATION
DID : 68833423
FAX : 68855899
EMAIL: vanessaloh@jtc.gov.sg
ENCS:

EQUINIX LETTERHEAD

29TH September 2003

INDUSTRIAL DEVELOPMENT
(HIGH-RISE) DEPARTMENT

JTC Corporation
The JTC Summit
8 Jurong Town Hall Road
Singapore 609434

BY HAND

Attn: Vanessa Loh

ACCEPTANCE OF OFFER OF TENANCY FOR THE PREMISES AT UNIT #03-01/02/03/04 BLK 20 AYER RAJAH CRESCENT AYER RAJAH
CRESCENT AYER RAJAH INSTRUSTRIAL ESTATE SIGAPORE 139964

We refer to your letter of offer dated 19th September 2003 for the Tenancy and hereby confirm our acceptance of all the covenants, terms and conditions of the Offer.

We are currently opting to pay by GIRO, thus we enclosed herewith a cheque for the amount S\$69,875.66 (inclusive of 1 months' security deposit) as confirmation of acceptance.

/s/ Lee Yoong Kin

Name of authorized signatory: Lee Yoong Kin
Designation: Managing Director

for and on behalf of : EQUINIX SINGAPORE PTE LTD

in the presence of:

/s/ Tan Aye See

Name of Witness: Tan Aye See
NRIC No: S1548786J

Equinix Singapore Pte Ltd
20 Ayer Rajah Crescent #05-05/08 * Singapore * 139964
phone: 65 6723 8888 fax: 65 6820 2001 website: www.equinix.com

SECOND AMENDMENT TO LEASE

This SECOND AMENDMENT TO LEASE (“**Amendment**”) is made and entered into as of the 30th day of November, 2003 (the “**Effective Date**”) by and between JMA Robinson Redevelopment, LLC, a Delaware limited liability company (“**Landlord**”), and EQUINIX, INC., a Delaware corporation (“**Tenant**”).

R E C I T A L S :

A. 600 SEVENTH STREET ASSOCIATES, INC., a California corporation (“**Associates**”) and Tenant entered into that certain Telecommunications Office Lease (the “**Original Lease**”) dated August 8, 1999, pursuant to which Associates leased to Tenant, and Tenant leased from Associates, certain space (the “**Premises**”) consisting of (i) approximately 67,000 rentable square feet of space located on the sixth (6th) floor, (ii) approximately 65,000 rentable square feet of space located on the seventh (7th) floor, and (iii) approximately 2,000 rentable square feet of space located on the roof, of that certain Building located at 600 West Seventh Street, Los Angeles, California 90014.

B. Associates and Tenant subsequently amended the Original Lease pursuant to that certain letter agreement dated August 24, 2000 (the “**First Amendment**”). The Original Lease and the **First Amendment** shall sometimes collectively herein be referred to as the “**Lease**”.

C. Landlord has succeeded to the interest of Associates and its successor, Carrier Center LA, Inc. (“**CCLA**”), as the “landlord” under the Lease.

D. Landlord and Tenant now desire to amend the Lease in certain respects, including to alter the manner in which the Landlord can recapture unused electrical capacity for the Premises, all as more provided below.

NOW, THEREFORE, in consideration of the foregoing Recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Capitalized Terms. Except as otherwise expressly provided herein to the contrary, all capitalized terms used in this Amendment shall have the same meanings given such terms in the Lease.

2. Recapture of Unused Amperage. The last sentence of Section 6.1.2 of the Original Lease is hereby deleted in its entirety and replaced along with subsections 6.1.2.1 through 6.1.2.3 with the following:

“Commencing on January 1, 2005 (the “**New Vesting Date**”), in the event Landlord reasonably determines in good faith that another tenant of the Building may need electrical capacity and Landlord does not otherwise have such electrical capacity available for use in the Building, Landlord shall have the right (the “**Landlord Amp Recapture Right**”), to meter and test Tenant’s connected peak amperage load used at the Premises for possible recapture pursuant to the terms set forth in Subsections 6.1.2.1 through 6.1.2.3 below. Landlord shall provide Tenant thirty (30) days advance written notice of its exercise of the Landlord Amp Recapture Right (the “**Electrical Testing Notice**”).

6.1.2.1 In the event that over a fifteen (15) day period immediately following the thirty (30) day advance notice period for the Electrical Testing Notice, Landlord's metering and testing procedures demonstrate that Tenant is not utilizing on a daily average business day basis all of the amps initially reserved by Tenant in Section 6.1.2, Landlord may reclaim up to seventy-five percent (75%) of any amperage Landlord reasonably determines through such process is being unused by Tenant.

6.1.2.2 Notwithstanding the foregoing, Tenant shall have the right to extend the New Vesting Date for a period of eighteen (18) months in the event Tenant recommences and diligently pursues new plans for the construction of the seventh (7th) floor component of the Premises pursuant to the requirements of Article VIII below; provided that if Tenant stops or suspends such seventh floor construction plans for more than sixty (60) days due to reasons other than force majeure, Landlord Amp Recapture Right shall immediately vest and Tenant should be subject to the metering and recapture process described in the preceding sentence.

6.1.2.3 At any time prior to Landlord's recapture of any unused amperage, Tenant shall have the right to extend the New Vesting Date for a period of eighteen (18) months by paying to Landlord, within twenty (20) days of completion of Landlord's fifteen (15) day testing period, an amount equal to seventy five dollars (\$75.00) multiplied by the number of amps Landlord has the right to recapture pursuant to this Section 6.1.2."

3. Representations and Warranties.

a. Landlord Representations. Landlord hereby represents and warrants to Tenant that to the best of Landlord's knowledge Tenant is not in default of any of its obligations under the Lease as of the Effective Date.

b. Tenant Representations. Tenant hereby represents and warrants to Landlord that to the best of Tenant's knowledge Landlord is not in default of any of its obligations under the Lease as of the Effective Date.

4) Attorneys' Fees. Should any dispute arise among the parties hereto or the legal representatives, successors and assigns concerning any provision of this Amendment or the rights and duties of any person in relation thereto, the party prevailing in such dispute shall be entitled, in addition to such other relief that may be granted, to recover reasonable attorneys' fees and legal costs in connection with such dispute.

5) Counterparts. This Amendment may be executed in any number of original counterparts. Any such counterpart, when executed, shall constitute an original of this Amendment, and all such counterparts together shall constitute one and the same Amendment.

6) No Further Modification. Except as set forth in this Amendment, all of the terms and provisions of the Lease shall remain unmodified and in full force and effect.

IN WITNESS WHEREOF, this Amendment has been entered into as of the day and year first above written.

“Landlord”

JMA ROBINSON REDEVELOPMENT, LLC, a
Delaware limited liability company

By: JMA Robinson Investors, LLC, a Delaware limited
liability company; Its: Sole Member

By: JMA Wired, LLC, a Delaware limited liability
company; Its: Managing Member

By: /s/ Arthur Chapman

Name: Arthur Chapman
Title: Member

“Tenant”:

EQUINIX, INC., a Delaware corporation

By: /s/ Renee F. Lanam

Name: Renee F. Lanam
Title: Chief Financial Officer

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-85202, 333-71870, 333-45280 and 333-104078) and Form S-3 (Nos. 333-104077 and 333-109697) of Equinix, Inc. of our report dated March 5, 2004 relating to the financial statements, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

San Jose, California

March 5, 2004

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Peter F. Van Camp, certify that:

1. I have reviewed this annual report on Form 10-K of Equinix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 5, 2004

/s/ PETER F. VAN CAMP

Peter F. Van Camp
Chief Executive Officer

**CERTIFICATION PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Renee F. Lanam, certify that:

1. I have reviewed this annual report on Form 10-K of Equinix, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: March 5, 2004

/s/ RENEE F. LANAM

Renee F. Lanam
Chief Financial Officer

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

In connection with the Annual Report of Equinix, Inc. (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter F. Van Camp, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ PETER F. VAN CAMP

Peter F. Van Camp
Chief Executive Officer
March 5, 2004

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

In connection with the Annual Report of Equinix, Inc. (the "Company") on Form 10-K for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Renée F. Lanam, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ RENEE F. LANAM

Renée F. Lanam
Chief Financial Officer
March 5, 2004