EQUINIX INC
Form 424B2
October 31, 2005
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Filed Pursuant to Rule 424(b)(2)
Registration No. 333-128857

This prospectus supplement is related to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. The selling stockholder may not sell these securities until this prospectus supplement is delivered in final form. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED OCTOBER 31, 2005

PRELIMINARY PROSPECTUS SUPPLEMENT

TO PROSPECTUS DATED OCTOBER 28, 2005

4,300,000 Shares

Common Stock

This prospectus supplement relates to an aggregate of up to 4,300,000 shares of our common stock by the selling stockholder, i-STT Investments (Bermuda) Ltd., an indirect, wholly-owned subsidiary of STT Communications Ltd. We understand that i-STT Investments (Bermuda) Ltd. expects to enter into a prepaid forward purchase agreement with Credit Suisse First Boston Capital LLC, an affiliate of Credit Suisse First Boston LLC. Pursuant to that forward purchase agreement, i-STT Investments (Bermuda) Ltd. expects to sell between and 4,300,000 shares of our common stock (or to deliver the cash value thereof) on or about , 2008, based on the average of the volume weighted average price per share of our common stock on each of the 20 trading days immediately prior to, but not including, the second trading day preceding that date. In connection with that forward purchase agreement, we understand that Credit Suisse First Boston (USA), Inc. expects to issue and sell, in a registered offering, a series of debt securities (% Shared Appreciation Income Linked Securities due 2008, which we refer to as the SAILS) that will be mandatorily exchangeable into shares of our common stock (or the cash value thereof) based on the same formula as in the forward purchase agreement described above and on the same date on which the shares are to be delivered under that forward purchase agreement. As of September 30, 2005, STT Communications Ltd was our single largest stockholder and beneficially owned approximately 37% of our common stock.

The SAILS are being sold in an offering described in a separate prospectus supplement and accompanying prospectus of Credit Suisse First Boston (USA), Inc. This prospectus supplement and the accompanying prospectus relate only to shares of our common stock that may be delivered as described above. **We take no responsibility for any information included in or omitted from the prospectus supplement and accompanying prospectus for the SAILS.** That prospectus supplement and the accompanying prospectus of Credit Suisse First Boston (USA), Inc. do not constitute a part of and are not incorporated by reference into this prospectus supplement and the accompanying prospectus. All net proceeds from the sale of our common stock will go to the selling stockholder pursuant to this prospectus supplement.

In a concurrent offering, i-STT Investments Pte. Ltd. is offering 5,150,000 shares of our common stock (plus up to 739,549 additional shares that are subject to an over-allotment option) through the underwriters named in the prospectus supplement relating to that offering, which we refer to herein as the concurrent offering. See Prospectus Supplement Summary The Concurrent Offering on page S-4 of this prospectus supplement.

Our common stock is quoted on The Nasdaq National Market under the symbol EQIX. On October 27, 2005, the closing sale price of our common stock on The Nasdaq National Market was $38.34 per share.

Investing in our common stock involves certain risks. See Risk Factors beginning on page S-8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is , 2005.

Credit Suisse First Boston

Citigroup **Goldman, Sachs & Co.**

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement supplements the prospectus dated October 28, 2005, which is a part of the Registration Statement (Registration No. 333-128857) and which relates to the offering of our common stock by the selling stockholder.

This document has two parts. The first part is the prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference. The second part is the accompanying prospectus, which gives more general information, some of which may not apply to this offering. Unless the context otherwise indicates, references in this prospectus supplement to prospectus refer to this entire document, including the prospectus supplement and the accompanying prospectus. **To the extent there is a conflict between the information contained in this prospectus supplement, the information contained in the accompanying prospectus or the information contained in any document incorporated by reference herein or therein, the information contained in the most recently dated document shall control.**

It is important for you to read and consider all information contained in this prospectus supplement and the accompanying prospectus, including the documents incorporated by reference herein and therein, in making your investment decision. You should also read and consider the information in the documents we have referred you to in the section entitled Where You Can Find More Information.

You should rely only on the information contained, incorporated or deemed incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to give any information or to make any representation not contained, incorporated or deemed incorporated by reference in this prospectus supplement or the accompanying prospectus in connection with the offering of our common stock by the selling stockholder in this offering. You should not assume that the information contained in this prospectus supplement and the accompanying prospectus is correct as of any date after the respective dates of this prospectus supplement and the accompanying prospectus, even though this prospectus supplement and the accompanying prospectus are delivered or the shares are offered or sold on a later date.

Neither this prospectus supplement nor the accompanying prospectus is an offer to sell any security other than our common stock, and they are not soliciting an offer to buy any security other than our common stock. Neither this prospectus supplement nor the accompanying prospectus is an offer to sell the common stock to any person, and they are not soliciting an offer from any person to buy the common stock, in any jurisdiction where the offer or sale to that person is not permitted.

Unless the context otherwise requires, the terms we, our, us, the company and Equinix refer to Equinix, Inc., a Delaware corporation and its consolidated subsidiaries.

In addition, as used in this prospectus supplement, the term:

- selling stockholder or i-STT Investments (Bermuda) refers to i-STT Investments (Bermuda) Ltd., a Bermuda corporation, a direct, wholly owned subsidiary of i-STT Investments Pte. Ltd.; and

- STT Communications refers to STT Communications Ltd, a Singapore corporation, the sole, direct stockholder of i-STT Investments Pte. Ltd., and the sole, indirect stockholder of i-STT Investments (Bermuda) Ltd.

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PROSPECTUS SUPPLEMENT SUMMARY

The following should be read together with the other information contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. This section contains a general summary of the information contained in this prospectus supplement. It may not include all of the information that is important to you. You should read the entire prospectus supplement, the accompanying prospectus and the documents identified in the accompanying prospectus under the caption Where You Can Find More Information.

Equinix, Inc.

Equinix provides network neutral colocation, interconnection and managed services to enterprises, content companies, systems integrators and the world s largest network providers. Through our Internet Business Exchange hubs, or IBX hubs, in eleven markets in the U.S. and Asia-Pacific, 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 a strong financial position continue to drive new customer growth and bookings. As a result of our largely fixed cost model, any growth in revenue would likely drive incremental margins and increased operating cash flow.

Our network neutral business model is a key differentiator for us in the market. Because we do not operate a network, we are able to offer our customers direct interconnection to the largest aggregation of bandwidth providers and Internet service providers. The world s top tier Internet service providers, numerous access networks, second tier providers and international carriers, such as AOL, AT&T, British Telecom, Cable & Wireless, Comcast, Level 3, MCI, NTT, SingTel and Qwest are all currently located at our IBX hubs. Access to such a wide variety of networks has attracted 9 of the top 10 Internet properties and numerous other enterprise and government customers, including Amazon.com, Electronic Arts, Fox Sports, Fujitsu, Gannett, The Gap, Goldman Sachs, Google, IBM, MSN, NASA, Solo Cup, Sony, Washington Mutual, and Yahoo!.

Our 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 provide scalable and reliable connectivity that allows our customers to exchange traffic directly with the service provider of their choice.
- Managed IT infrastructure services allow our customers to leverage our significant telecommunications expertise, maximize the benefits of our IBX hubs and optimize their infrastructure and resources.

The market for these services has historically been served by large telecommunications carriers who have bundled their telecommunications services and managed services with their colocation offerings. A number of these telecommunications carriers have recently eliminated or reduced their colocation footprint to focus on their core businesses. Additionally, many of the competitive providers have failed to scale their businesses and have been forced to exit the market. This reduction in supply in the industry has stabilized pricing and increased the demand for our centers because we have gained many of those customers displaced from these companies as access to their networks is also available in our IBX hubs. Strategically, we will continue to look at attractive opportunities to grow our market share and selectively improve our footprint and service offerings.

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Our Strategy

Our objective is to become the premier Internet exchange hub for content providers, enterprises and government customers to locate their network infrastructure and exchange traffic with the world s largest network providers. 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 service over 200 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 The Gap, Gannett, Goldman Sachs, IBM, SOLO Cup, Sony, Washington Mutual, XM Radio and others. Similarly, we have experienced increasing success in attracting customers from the government sector within defense and security, such as NASA. We expect these sectors to be a key growth driver in 2006 and beyond.

Leverage the Network Effect. As network providers, content providers, enterprise and government 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 our customers overall cost while increasing their flexibility.

Promote our IBX Hubs as the Highest Performance Points on the Internet. Data center reliability is one of the most important attributes when customers are choosing a data center provider. Our premier IBX hubs are next-generation data centers and offer customers advanced security, reliability and redundancy. Our security design includes five levels of biometrics security to access customer cages. Our power infrastructure includes N+1 redundancy for all systems and has delivered 99.999% uptime over the period January 1, 2002 through September 30, 2005. Our support staff, trained to aid customers with operational support, are available 24 hours a day, 365 days a year.

Provide New Products and Services within our IBX Hubs. We plan to 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.

Ensure Continuous Growth for our Customers. We plan to expand in key markets based on customer demand to ensure a smooth growth path for our customers. For example, we have acquired six new IBX centers in our key markets over the last two years, increasing our customer cabinet capacity by 50%. Our strategy is to continue to grow in our existing markets and possibly expand to additional markets. We expect to execute this expansion strategy in a cost-effective and prudent manner through a combination of acquiring existing centers through lease or purchase, or building new centers based on key criteria in each market.

Recent Developments

In October 2005, we entered into a purchase and sale agreement to sell our Los Angeles IBX data center for $38.7 million and to lease it back from the purchaser pursuant to a long-term lease. We refer to this transaction as the Los Angeles IBX sale-leaseback transaction. The Los Angeles IBX sale-leaseback transaction is subject to certain closing contingencies. Although there can be no assurance that these contingencies will be met, it is

expected that these conditions will be removed on November 1, 2005 and the Los Angeles IBX sale-leaseback transaction will close before the end of 2005.

In October 2005, we purchased an office/warehouse complex known as the Beaumeade Business Park located in Ashburn, Virginia, which we refer to as the Ashburn campus. We purchased the entire 32.6-acre Ashburn campus containing six buildings with approximately 462,000 rentable square feet that is approximately 95% leased. We refer to this transaction as the Ashburn IBX property acquisition. We currently occupy approximately 269,000 square feet within three of the buildings. Payments due under the Ashburn IBX property acquisition total $53.0 million plus closing costs, which we paid for in full in October 2005. We will continue to operate our existing data centers within the Ashburn campus. We intend to sell those buildings that will not be used for our current operations or expansion plans. In addition, we have entered into a non-binding letter of intent to finance the Ashburn campus with a $60.0 million, 8% mortgage to be amortized over 20 years. We refer to this transaction as the Ashburn campus financing. The Ashburn campus financing is subject to the completion of definitive agreements, and although there is no assurance that the definitive agreements will be completed, we currently expect the Ashburn campus financing to close before the end of 2005.

In October 2005, we announced that we have entered into a non-binding letter of intent for the early termination of our 39 acre San Jose ground lease whereby we will pay $40.0 million over the next four years, commencing January 1, 2006, to terminate this lease, which would otherwise require significantly higher cumulative lease payments through 2020. We refer to this transaction as the San Jose ground lease termination. As a result of the San Jose ground lease termination, we expect to incur a significant restructuring charge in the fourth quarter of 2005. The San Jose ground lease termination is subject to the completion of definitive agreements, and although there is no assurance that the definitive agreements will be completed, we currently expect the San Jose ground lease termination to close before the end of 2005.

In October 2005, we elected to draw down a portion of the $50.0 million Silicon Valley Bank revolving credit line. We elected to borrow $30.0 million at a one-month LIBOR interest rate, inclusive of the applicable margin, of 5.72% per annum, which we refer to as the $30.0 million drawdown. The $30.0 million drawdown was used to fund a portion of the purchase of the Ashburn IBX property acquisition. On November 17, 2005, we may elect to either repay all or a portion of the $30.0 million drawdown, or convert the $30.0 million drawdown into a new borrowing at either the then applicable one, three or six month LIBOR rate plus an applicable margin or at the prime rate. Borrowings under the $50.0 million Silicon Valley Bank revolving credit line may be borrowed, repaid and reborrowed at a later date up to the final maturity date of the $50.0 million Silicon Valley Bank revolving credit line, which is Sept 16, 2008. As of October 28, 2005, in addition to the $30.0 million drawdown described above, we had utilized $5.2 million of the credit line through the issuance of letters of credit, and, as a result, we had $14.8 million remaining available for borrowing under the $50.0 million Silicon Valley Bank revolving credit line.

The Concurrent Offering

In the concurrent offering, i-STT Investments Pte. Ltd. is offering 5,150,000 shares of our common stock (plus up to 739,549 additional shares that are subject to an over-allotment option) through the underwriters named in the prospectus supplement relating to that offering.

Company Information

Our principal executive offices are located at 301 Velocity Way, Fifth Floor, Foster City, CA 94404 and our telephone number is (650) 513-7000. Our website is located at *www.equinix.com*. Information contained on or accessible through our website is not part of this prospectus supplement.

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THE OFFERING

We understand that Credit Suisse First Boston (USA), Inc. expects to issue and sell, in a registered offering, $ million aggregate principal amount of its % Shared Appreciation Income Linked Securities due 2008, which we refer to as the SAILS. The SAILS are a series of debt securities that will be mandatorily exchanged at maturity, which is scheduled to be , 2008, for between and 4,300,000 shares of our common stock (or the cash value thereof) based on the average of the volume weighted price per share of our common stock on each of the 20 trading days immediately prior to the second trading day preceding such maturity date. The closing of the sale of our common stock offered hereby is not contingent upon the closing of the offering of the SAILS.

In connection with the offering described in the preceding paragraph, the selling stockholder has advised us that it expects to enter into a forward purchase agreement with Credit Suisse First Boston Capital LLC. Pursuant to that forward purchase agreement, i-STT Investments (Bermuda) has agreed to deliver, subject to its right to cash settle such forward purchase agreement, an aggregate of between and 4,300,000 shares of our common stock, determined based on the same formula as in the SAILS and on the same dates on which Credit Suisse First Boston (USA), Inc. is required to deliver shares of our common stock to the holders of the SAILS. Under that forward purchase agreement, Credit Suisse First Boston Capital LLC will, on the closing date of the offering of the SAILS, pay i-STT Investments (Bermuda) a negotiated price for the shares of our common stock underlying the forward purchase agreement. i-STT Investments (Bermuda) expects to enter into a collateral agreement under which it will pledge to the collateral agent, to secure its obligations under the forward purchase agreement, the maximum number of shares it may be required to deliver thereunder, subject to certain adjustments. Until i-STT Investments (Bermuda) delivers shares of our common stock upon settlement of the forward purchase agreement, it will continue to beneficially own and vote the shares it expects to pledge under the collateral agreement. If i-STT Investments (Bermuda) elects to settle its obligations under the forward purchase agreement in cash instead of delivering shares of our common stock, it will continue to own those shares. i-STT Investments (Bermuda) will also continue to own any shares of our common stock that it has pledged but is not ultimately required to deliver under the forward purchase agreement due to the application of the formula therein.

Neither we nor i-STT Investments (Bermuda) will have any obligation to deliver additional shares of our common stock pursuant to the forward purchase agreement, or any obligation to deliver shares of our common stock to any holder of the SAILS.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following summary consolidated financial data should be read in conjunction with our consolidated financial statements and their related notes, Capitalization and Management s Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this prospectus supplement. The summary consolidated statement of operations data for the years ended December 31, 2000 to 2004 are derived from our audited consolidated financial statements and their related notes. The summary consolidated statement of operations data for the nine months ended September 30, 2005 and 2004 and the balance sheet data as of September 30, 2005 are derived from our unaudited condensed interim consolidated financial statements and their related notes. In the opinion of management, all financial information derived from such unaudited interim financial statements reflects all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of that information. Historical results are not necessarily indicative of future performance and results for the nine months ended September 30, 2005 are not necessarily indicative of results to be expected for the full year. The pro forma as adjusted column for the summary consolidated balance sheet dated as of September 30, 2005 gives effect to the conversion of the following instruments held by i-STT Investments Pte. Ltd. that are convertible into common stock as if they had converted on September 30, 2005: (i) 1,868,667 shares of common stock issuable upon conversion of outstanding shares of series A preferred stock; (ii) 237,309 shares of common stock issuable upon conversion of $2,058,000 of outstanding convertible secured notes (presented net of discount as $1,962,000 below) plus $120,000 of accrued but unpaid interest through September 30, 2005 (there are also $12,000 of unamortized debt issuance costs as of September 30, 2005 associated with these convertible secured notes) and (iii) 965,674 shares of common stock issuable upon exercise of an outstanding series A-1 preferred stock warrant and conversion of the series A-1 preferred stock issuable thereunder into shares of common stock (this warrant has an exercise price of $0.01 per share, which would result in cash proceeds to Equinix of approximately $10,000 upon exercise). We estimate that approximately $30,000 in additional interest will accrue with respect to the convertible secured notes assuming the conversion takes place on November 7, 2005, which would result in 3,269 additional shares of common stock being issued. This additional accrued interest is not reflected in the Pro Forma As Adjusted column.

	Years ended December 31,					Nine months ended September 30,	
	2000	2001	2002	2003	2004	2004	2005
	(in thousands, except per share data)						
Statement of Operations Data:							
Revenues	$ 13,016	$ 63,414	$ 77,188	$ 117,942	$ 163,671	$ 118,682	$ 159,259
Costs and operating expenses:							
Cost of revenues	43,401	94,889	104,073	128,121	136,950	102,245	116,639
Sales and marketing	20,139	16,935	15,247	19,483	18,604	13,498	14,793
General and administrative	56,585	58,286	30,659	34,293	32,494	24,544	33,594
Restructuring charges		48,565	28,885		17,685		
Total costs and operating expenses	120,125	218,675	178,864	181,897	205,733	140,287	165,026
Loss from operations	(107,109)	(155,261)	(101,676)	(63,955)	(42,062)	(21,605)	(5,767)
Interest income	16,430	10,656	998	296	1,291	819	2,644
Interest expense	(29,111)	(43,810)	(35,098)	(20,512)	(11,496)	(8,765)	(6,332)
Gain (loss) on debt extinguishment and conversion			114,158		(16,211)	(16,211)	
Income taxes					(153)	(200)	(553)
Net loss	$ (119,790)	$ (188,415)	$ (21,618)	$ (84,171)	$ (68,631)	$ (45,962)	$ (10,008)
Net loss per share:							
Basic and diluted	$ (111.23)	$ (76.62)	$ (7.23)	$ (8.76)	$ (3.87)	$ (2.65)	$ (0.43)

Weighted average shares	1,077	2,459	2,990	9,604	17,719	17,370	23,335
Pro forma net loss per share (unaudited) (1):							
Basic and diluted					$ (2.82)		$ (0.38)
Weighted average shares					24,300		26,263

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	As of September 30, 2005	
	Actual	Pro Forma as Adjusted (2)
	(dollars in thousands)	
Balance Sheet Data:		
Cash, cash equivalents and short-term and long-term investments	$ 108,290	$ 108,300
Accounts receivable, net	16,199	16,199
Property and equipment, net	371,005	371,005
Total assets	533,380	533,378
Debt facility and capital lease obligation, less current portion	48,748	48,748
Convertible secured notes	1,962	
Convertible subordinated debentures	86,250	86,250
Total stockholders equity	315,076	317,156

(1) Pro forma net loss per share reflects the conversion of the following instruments held by i-STT Investments Pte. Ltd. that are convertible into common stock as if they had been converted on January 1, 2004: (i) 1,868,667 shares of common stock upon conversion of outstanding shares of series A preferred stock, (ii) 3,746,167 shares of common stock issuable upon conversion of $33,598,000 of the selling stockholder s convertible secured notes plus $784,000 of accrued but unpaid interest that were outstanding as of December 31, 2003 (because the selling stockholder converted 95% of its outstanding convertible secured notes and associated interest during the quarter ended March 31, 2005, for purposes of the pro forma net loss per share amount for the nine months ended September 30, 2005, only 93,117 shares were added to the weighted average shares outstanding for that period) and (iii) 965,674 shares of common stock issuable upon exercise of an outstanding series A-1 preferred stock warrant and conversion of the series A-1 preferred stock issuable thereunder into shares of common stock.

(2) The pro forma as adjusted column does not reflect any of the recent developments discussed elsewhere in this prospectus supplement including: (i) the Los Angeles sale-leaseback transaction, (ii) the Ashburn IBX property acquisition and the Ashburn campus financing, (iii) the San Jose ground lease termination and (iv) the $30.0 million drawdown from our $50.0 million Silicon Valley Bank revolving credit line.

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RISK FACTORS

In addition to the other information contained in this prospectus supplement, the accompanying prospectus, and in the documents incorporated by reference therein, respectively, the following risk factors should be considered carefully in evaluating our business, us and the sale of shares of our common stock contemplated hereby.

Risks Related to Our Business

We have incurred substantial losses in the past and may continue to incur additional losses in the future.

Although we have generated cash from operations since the quarter ended September 30, 2003, for the years ended December 31, 2004 and 2003, we incurred net losses of $68.6 million and $84.2 million, respectively. For the nine months ended September 30, 2005, we incurred a net loss of $10.0 million. In light of new rules regarding the expensing of stock-based compensation, we do not expect to become net income positive for the foreseeable future. In addition, if we acquire or build-out additional IBX centers, we will have additional depreciation and amortization expenses that will negatively impact our ability to achieve and sustain profitability. Even without giving effect to the expensing of stock-based compensation, there can be no guarantee that we will become profitable, and we may continue to incur additional losses. Even if we achieve profitability, given the competitive and evolving nature of the industry in which we operate, we may not be able to sustain or increase profitability on a quarterly or annual basis.

We expect our operating results to fluctuate.

We have experienced fluctuations in our results of operations on a quarterly and annual basis. The fluctuations 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:

- financing or other expenses related to the acquisition, purchase or construction of additional IBX centers;
- mandatory expensing of employee stock-based compensation, including restricted shares;
- demand for space, power and services at our IBX centers;
- changes in general economic conditions and specific market conditions in the telecommunications and Internet industries;
- costs associated with the write-off of unimproved or underutilized property;

- 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;
- the timing required for new and future centers to become fully utilized;
- competition in the markets in which we operate;
- conditions related to international operations;
- the timing and magnitude of operating expenses, including taxes, 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 prospectus supplement or the documents incorporated herein by reference, could have a material adverse effect on our business, results of operations and financial condition. Although we have experienced growth in revenues in recent quarters, this growth rate is not necessarily indicative of future operating results. It is possible that we 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 our 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 pre-2003 tax net operating losses, or NOLs, in any taxable year is subject to limitation under Section 382 of the United States Internal Revenue Code of 1986, as amended, (the Code) as a result of the significant change in the ownership of our stock that resulted from our combination with i-STT Pte. Ltd. and Pihana Pacific, Inc. in 2002, which we call the combination. We expect that a significant portion 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.

We believe that the sale of all or substantially all of the securities held by STT Communications in this offering and the concurrent offering would also trigger a new limitation under the Code. As a result of our market capitalization, however, such a limitation is not expected to have a material impact on our ability to use the NOLs generated up to the date of such a sale.

We are exposed to potential risks from recent legislation requiring companies to evaluate controls under Section 404 of the Sarbanes-Oxley Act of 2002.

Although we received an unqualified opinion regarding the effectiveness of our internal controls over financial reporting as of December 31, 2004, in the course of our ongoing evaluation of our internal controls over financing reporting, we have identified certain areas which we would like to improve and are in the process of evaluating and designing enhanced processes and controls to address these areas identified during our evaluation, none of which we believe constitutes or will constitute a material change. However, we cannot be certain that our efforts will be effective or sufficient for us, or our independent registered public accounting firm, to issue unqualified reports in the future, especially as our business continues to grow and evolve.

It may be difficult to design and implement effective financial controls for combined operations, and differences in existing controls of any acquired businesses may result in weaknesses that require remediation when the financial controls and reporting are combined.

Our ability to manage our operations and growth will require us to improve our operational, financial and management controls, as well as our internal reporting systems and controls. We may not be able to implement improvements to our internal reporting systems and controls in an efficient and timely manner and may discover deficiencies in existing systems and controls.

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

For the years ended December 31, 2004 and 2003, we recognized 13% and 15%, respectively, of our revenues outside North America. For the nine months ended September 30, 2005, we recognized 13% of our

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revenues outside North America. We anticipate that, for the foreseeable future, a significant part of our revenues will be derived from sources outside North America.

To date, the neutrality of our IBX centers and the variety of networks available to our customers has often been a competitive advantage for us. In certain of our acquired IBX centers, in Singapore in particular, the limited number of carriers available reduces 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 our revenues and costs have been denominated in U.S. dollars; however, the majority of revenues and costs in our international operations have been denominated in Singapore dollars, Japanese yen and Australia and Hong Kong dollars. Although we have and may continue to undertake foreign exchange hedging transactions to reduce foreign currency transaction exposure, we do 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 centers 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 evolving governmental regulation with which we have little experience.

We are continuing to invest in our expansion efforts but may not have sufficient customer demand in the future to realize expected returns on these investments.

We are considering the acquisition or lease of additional properties, including construction of new IBX centers. We will be required to commit substantial operational and financial resources to these IBX centers, generally 12-18 months in advance of securing customer contracts, and we may not have sufficient customer demand in those markets to support these centers once they are built. In addition, unanticipated technological changes could affect customer requirements for data centers and we may not have built such requirements into our new IBX centers. Any of these contingencies, if they were to occur, could make it difficult for us to realize expected or reasonable returns on these investments.

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

We have recently acquired several new IBX centers, and we may seek to acquire additional IBX centers, real estate for development of new IBX centers, complementary businesses, products, services or technologies. As a result of these acquisitions, we may be required to incur additional debt and expenditures and issue additional shares of our common stock to pay for the acquired businesses, products, services or technologies, which will dilute our stockholders ownership interest 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 additional capital expenditures may be required;
- the possibility that senior management may be required to spend considerable time negotiating agreements and integrating acquired businesses;

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- the possible loss or reduction in value of acquired businesses;

- the possibility that our customers may not accept either the existing equipment infrastructure or the look-and-feel of a new or different IBX center;

- the possibility that carriers may find it cost-prohibitive or impractical to bring fiber and networks into a new IBX center;

- the possibility of preexisting undisclosed liabilities regarding the property or IBX center, including but not limited to environmental or asbestos liability, of which our insurance may be insufficient or for which we may be unable to secure insurance coverage; and

- the possibility that the concentration of our IBX centers in the Silicon Valley may increase our exposure to seismic activity and that these facilities may be located on or near the fault zones for which we may not have adequate levels of earthquake insurance.

We cannot assure you that the price for any future acquisitions will be similar to prior IBX acquisitions. In fact, we expect acquisition costs, including capital expenditures required to build or render new IBX centers operational, to increase in the future. If our revenue does not keep pace with these potential acquisition and expansion costs, we may not be able to maintain our current or expected margins as we absorb these additional expenses. There is no assurance we would successfully overcome these risks or any other problems encountered with these acquisitions.

The increased use of high power density equipment may limit our ability to fully utilize our IBX centers.

Customers are increasing their use of high density electrical power equipment, such as blade servers, in our IBX centers which has significantly increased the demand for power on a per cabinet basis. Because most of our centers were built several years ago, the current demand for electrical power may exceed our designed capacity in these facilities. As electrical power, not space, is typically the limiting factor in our IBX data centers, our ability to fully utilize our IBX centers may be limited in these facilities.

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

Our IBX centers are susceptible to regional costs of power, electrical power shortages, planned or unplanned power outages such as those that occurred in California during 2001 and in the Northeast in 2003 or natural disasters such as the tornados in the U.S. East Coast in 2004, and limitations, especially internationally, on availability of adequate power resources. Power outages could harm our customers and our business. We attempt to limit exposure to system downtime by using backup generators and power supplies, however, we may not be able to limit our exposure entirely even with these protections in place, as was the case with power outages we experienced in our Chicago and Washington, D.C. metro area IBX centers in 2005. In addition, the overall power shortage in California has increased the cost of energy, which we may not be able to pass on to our customers.

In each of our markets, we rely on third parties to provide a sufficient amount of power for current and future customers. At the same time, power and cooling requirements are growing on a per unit basis. As a result, some customers are consuming an increasing amount of power per cabinet. We generally do not control the amount of electric power our customers draw from their installed circuits. This means that we could face power limitations in our centers. This could have a negative impact on the effective available capacity of a given center and limit our ability to grow our business, which could have a negative impact on our financial performance, operating results and cash flows.

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

Our IBX centers are subject to state and local real property taxes. The state and local real property taxes on our IBX centers 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.

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, 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. Currently, the fair market value of our United States real property interests is significantly below the 50% threshold. However, in order to assure compliance with the FIRPTA covenant, 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, we may take proactive steps to avoid our capital stock being deemed United States real property interest, including, but not limited to, (a) a sale-leaseback transaction with respect to some or all of our 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 take these actions only if such actions are commercially reasonable for us and our stockholders. We have entered into an agreement with STT Communications and its affiliate pursuant to which, and effective only upon the closing of any offering of our common stock under this prospectus supplement, we will no longer be bound by the FIRPTA covenant as of September 30, 2009.

If regulated materials are discovered at facilities leased or owned by us, we may be required to remove or clean-up such materials, the cost of which could be substantial.

We are subject to various environmental and health and safety laws and regulations, including those relating to the generation, storage, handling and disposal of hazardous substances and wastes. Certain of these laws and regulations also impose joint and several liability, without regard to fault, for investigation and cleanup costs on current and former owners and operators of real property and persons who have disposed of or released hazardous substances into the environment. Our operations involve the use of hazardous substances and materials such as petroleum fuel for emergency generators, as well as batteries, cleaning solutions and other materials. In addition, we lease, own or operate real property at which hazardous substances and regulated materials have been used in the past. At some of these locations, hazardous substances or regulated materials are known to be present in soil or groundwater and there may be additional unknown hazardous substances or regulated materials present at sites we own, operate or lease. To the extent any hazardous substances or any other substance or material must be cleaned up or removed from such property, we may be responsible under applicable laws, regulations or leases for the removal or cleanup of such substances or materials, the cost of which could be substantial. In addition, noncompliance with existing, or adoption of more stringent, environmental or health and safety laws and regulations or the discovery of previously unknown contamination could require us to incur costs or become the basis of new or increased liabilities that could be material.

Our non-U.S. customers include numerous related parties of the selling stockholder.

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, entities affiliated with STT Communications make investments in various companies. They have 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.

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

The presence of diverse telecommunications carriers fiber networks in our IBX centers is critical to our ability to retain and attract new customers. We are not a telecommunications carrier, and as such we rely on third parties to provide our customers with carrier services. We believe that the availability of carrier capacity will directly affect our ability to achieve our projected results. We rely primarily on revenue opportunities from the telecommunications carriers customers to encourage them to invest the capital and operating resources required to connect from their facilities to our IBX centers. Carriers will likely evaluate the revenue opportunity of an IBX center 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 centers or that once a carrier has decided to provide Internet connectivity to our IBX centers that it will continue to do so for any period of time. Further, many carriers are experiencing business difficulties or announcing consolidations. As a result, some carriers may be forced to downsize or terminate connectivity within our IBX centers which could have an adverse effect on our operating results.

Our new IBX centers require construction and operation of a sophisticated redundant fiber network. The construction required to connect multiple carrier facilities to our IBX centers 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 centers does not occur, is materially delayed or is discontinued, or is subject to failure, our operating results and cash flow will be adversely affected. Any hardware or fiber failures on this network may result in significant loss of connectivity to our new IBX expansion centers. This could affect our ability to attract new customers to these IBX centers or retain existing customers.

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 our customers IBX infrastructure and their equipment located in our IBX centers. We continue to acquire IBX centers not built by us. If these IBX centers and their infrastructure assets are not in the condition we believe them to be in, we may be required to incur substantial additional costs to repair or upgrade the facilities. The services we provide in each of our IBX centers 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;

- fiber cuts;
- power loss;
- sabotage and vandalism; and
- failure of business partners who provide our resale products.

Problems at one or more of our IBX centers, 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, including our significant customers. As a result, service interruptions or significant equipment

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damage in our IBX centers could result in difficulty maintaining service level commitments to these customers. For example, for the nine months ended September 30, 2005, we recorded $607,000 in service level credits to various customers associated with two separate power outages that affected our Chicago and Washington, D.C. metro area IBX centers. 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 and revenue reserves may not be adequate. In addition, any loss of services, equipment damage or inability to meet our service level commitment obligations 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 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 and subjecting us to the risk of lawsuits. 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 may not be available for several hours, thus negatively impacting hosted customers on-line business transactions. Affected customers might file claims against us under such circumstances. Our property and liability insurance may not be adequate to cover these customer claims.

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

In order to provide resale services such as bandwidth, managed services and other network management services, we 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 nine months ended September 30, 2005 and 2004, IBM accounted for 11% and 13%, respectively, of our revenues. We expect that IBM will continue to account for a significant portion of our revenue for the foreseeable future. Although the term of our IBM contract runs through 2009, IBM currently has the right to reduce its commitment to us pursuant to the terms and requirements of its customer agreement. If we lose IBM as a customer or if it significantly reduces the level of its commitment, 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 centers and other products and services must be able to differentiate themselves from those of other 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

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traditional colocation providers, including local phone companies, long distance phone companies, Internet service providers and web hosting facilities. Similarly, 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 in which we have IBX centers. 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 centers. 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. We may experience competition from our landlords in this regard. Rather than leasing available space in our buildings to large single tenants, they may decide to convert the space instead to smaller square foot units designed for multi-tenant colocation use. Landlords may enjoy a cost effective advantage in providing services similar to those provided by our IBXs, and this could also reduce the amount of space available to us for expansion in the future. Competitors may operate more successfully or form alliances to acquire significant market share. Furthermore, enterprises that have already invested substantial resources in outsourcing arrangements may be reluctant or slow to replace, limit or compete with their existing systems by becoming a customer. In addition, other companies may be able to attract the same potential customers that we are targeting. Once customers are located in competitors   facilities, it may be extremely difficult to convince them to relocate to our IBX centers.

Because we depend on the retention of key employees, failure to maintain stock option incentives may be disruptive to our business.

Our success in retaining key employees and discouraging them from moving to a competitor is an important factor in our ability to remain competitive. As is common in our industry, our employees are typically compensated through grants of stock options in addition to their regular salaries. We occasionally grant new stock options to employees as an incentive to remain with the company. To the extent we are unable to adequately maintain these stock option incentives due to stock option expensing or otherwise, and should employees decide to leave the company, this may be disruptive to our business and may adversely affect our business, financial condition and results of operations.

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 center, 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 centers 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 center   s operating reliability and security and our ability to effectively market our services. In addition, some of our customers are, and are likely to 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 centers. This may be disruptive to our business and may adversely affect our business, financial condition and results of operations.

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 centers and to purchase additional services typically involves a significant commitment of resources. In addition, some customers will be reluctant to commit to locating in our IBX centers until they are confident that the IBX center has adequate carrier connections. As a result, we have a long sales cycle. Furthermore, we may expend significant time and resources in pursuing a particular sale or customer that does not result in revenue. Delays due to the length of 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, as amended, is subject to court approval and sufficient participation by defendants in similar actions. If the proposed settlement, as amended, is not approved by the court or a sufficient number of defendants do not participate in the settlement, the defense of this litigation may continue and therefore 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 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 centers will materialize. If the market for our IBX centers grows more slowly than we currently anticipate, our revenues may not grow and our operating results could 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 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.

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Industry consolidation may have a negative impact on our business model.

The telecommunications industry is currently undergoing consolidation. As customers combine businesses, they may require less colocation space, and there may be fewer networks available to choose from. Given the competitive and evolving nature of this industry, further consolidation of our customers and/or our competitors may present a risk to our network neutral business model and have a negative impact on our revenues. In addition, increased utilization levels industry-wide could lead to a reduced amount of attractive expansion opportunities available to us.

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 centers. We may not have adequate property and liability insurance to cover catastrophic events or attacks.

Risks Related to the Offering

If the market price of our stock continues to be highly volatile, the value of an investment in our common stock may decline.

Since January 1, 2005, our common stock has traded between $31.39 and $46.39 per share. The market price of the shares of our common stock has been and may continue to be highly volatile. Actual sales, or the market s perception with respect to possible sales, of a substantial number of shares of our common stock within a narrow period of time could cause our stock price to fall. Announcements by us or others may also have a significant impact on the market price of our common stock. These announcements may include:

- our operating results;
- new issuances of equity, debt or convertible debt;
- developments in our relationships with corporate customers;
- announcements by our customers or competitors;
- announcements with respect to the intentions of STT Communications, our principal stockholder, with respect to its holdings of our common stock;

- changes in regulatory policy or interpretation;
- changes in the ratings of our stock by securities analysts;
- purchase or development of real estate and/or additional IBX centers;
- announcements with respect to the operational performance of our IBX centers;
- market conditions for telecommunications stocks in general; and
- general economic and market conditions.

The stock market has from time to time experienced extreme price and volume fluctuations, which have particularly affected the market prices for emerging telecommunications companies, and which have often been unrelated to their operating performance. These broad market fluctuations may adversely affect the market price of our common stock.

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A significant number of shares of our capital stock have been issued during 2002, 2003, 2004 and 2005 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, Inc. and its affiliates (collectively, Crosslink) in connection with Crosslink s purchase of our Series A-2 Convertible Secured Notes, and to the public and STT Communications in connection with our follow-on equity offering in late 2003. The shares of common stock issued in the senior note exchange are currently freely tradable. The shares of common stock issued in connection with the combination have been registered for resale as of June 30, 2003, 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 and the shares of common stock issued upon conversion of the convertible secured notes issued in the Crosslink financing have been registered for resale as of July 30, 2004. The shares sold to the public and STT Communications in connection with our follow-on equity offering in November 2003 are freely tradable by the public, subject, in the case of STT Communications, to compliance with Rule 144 resale restrictions applicable to affiliates. In February 2004, we issued $86,250,000 in aggregate principal amount of 2.5% Convertible Subordinated Debentures due 2024. These debentures are convertible into 2,183,548 shares of our common stock. Holders of these debentures may convert their debentures into shares of our common stock during any calendar quarter if the sale price of our common stock is greater than or equal to 120% of the conversion price per share of our common stock for 20 out of any 30 consecutive trading days or if the trading price of our debentures falls below specified prices. In January 2005, 95% of STT Communications outstanding convertible secured notes and associated interest were converted into shares of our non-voting series A-1 preferred stock. In February 2005, STT Communications elected to convert all of the shares of series A-1 preferred stock into 4.1 million shares of our common stock. Sales or distributions of all or a significant portion of these shares of our common stock could reduce the market price of our common stock.

An offering of these shares and the related transactions may affect the market for our common stock for some period of time.

The shares being offered pursuant to this prospectus supplement and in the concurrent offering represent a substantial portion of our outstanding common stock and will substantially increase the number of publicly traded shares of our common stock. No prediction can be made about the effect, if any, of this offering on the market price for our common stock. Sales or distributions of substantial amounts of our common stock, or the perception that such sales or distributions may occur, could adversely affect prevailing market prices for our common stock.

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

Although STT Communications intends to sell substantially all of its holdings of our common stock in this offering and the concurrent offering, it will continue to beneficially own and vote the shares of our common stock (i) pledged to secure the forward purchase agreement, which will represent approximately 16% of our outstanding shares of common stock, (ii) not sold in this offering or the concurrent offering or (iii) not delivered in connection with the settlement of the forward purchase agreement related to this offering. STT Communications is not prohibited from buying shares of our common stock in public or private transactions. As a result, STT Communications will continue to 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.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, and the documents incorporated by reference, contain 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 such statements 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 Risk Factors and Liquidity and Capital Resources located elsewhere in this prospectus supplement. 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. You should carefully consider the risks described in the Risk Factors section, in addition to the other information set forth in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in the accompanying prospectus, before making an investment decision.

USE OF PROCEEDS

All net proceeds from the sale of our common stock will go to the selling stockholder.

DIVIDEND POLICY

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. 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. Our ability to pay cash dividends is limited under our line of credit with Silicon Valley Bank, such that, without the prior written consent of Silicon Valley Bank, the aggregate amount of any cash dividends may not exceed 25% of our assets.

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COMMON STOCK PRICE RANGE

Our common stock is quoted on The Nasdaq National Market under the symbol of EQIX. Our common stock began trading in August 2000. The following table sets forth on a per share basis the high and low closing sale prices for our common stock as reported on The Nasdaq National Market during the periods indicated below.

	Price Range of Common Stock	
Period	**High**	**Low**
2003		
First Quarter	$ 7.70	$ 2.95
Second Quarter	10.40	2.90
Third Quarter	23.37	8.03
Fourth Quarter	28.25	17.04
2004		
First Quarter	$ 36.87	$ 26.49
Second Quarter	35.84	27.86
Third Quarter	33.52	26.59
Fourth Quarter	43.10	31.44
2005		
First Quarter	$ 46.27	$ 40.67
Second Quarter	44.11	31.61
Third Quarter	45.09	38.28
Fourth Quarter (through October 27, 2005)	41.74	35.31

The closing sale price of our common stock on The Nasdaq National Market on October 27, 2005, was $38.34 per share. As of September 30, 2005, there were 442 registered holders of our common stock.

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CAPITALIZATION

The following unaudited table sets forth our capitalization as of September 30, 2005 on both:

- an actual basis; and
- a pro forma as adjusted basis to reflect the conversion into common stock of various instruments held by i-STT Investments Pte. Ltd. as if they had been converted on September 30, 2005, including (i) 1,868,667 shares of common stock issuable upon conversion of outstanding shares of series A preferred stock; (ii) 237,309 shares of common stock issuable upon conversion of $2,058,000 of outstanding convertible secured notes (presented net of discount as $1,962,000 below) plus $120,000 of accrued but unpaid interest through September 30, 2005 (there are also $12,000 of unamortized debt issuance costs as of September 30, 2005 associated with these convertible secured notes) and (iii) 965,674 shares of common stock issuable upon exercise of an outstanding series A-1 preferred stock warrant and conversion of the series A-1 preferred stock issuable thereunder into shares of common stock (this warrant has an exercise price of $0.01 per share, which would result in cash proceeds to Equinix of approximately $10,000 upon exercise). We estimate that approximately $30,000 in additional interest will accrue with respect to the convertible secured notes assuming the conversion takes place on November 7, 2005, which would result in 3,269 additional shares of common stock being issued. This additional accrued interest is not reflected in the Pro Forma As Adjusted column.

Please read the capitalization table provided below together with the sections of this prospectus supplement entitled Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations and the financial statements included elsewhere in this prospectus supplement.

	As of September 30, 2005	
	Actual	**Pro Forma As Adjusted(1)**
	(dollars in thousands, except per share data)	
Cash, cash equivalents and short-term and long-term investments	$ 108,290	$ 108,300
Current portion of debt facility and capital lease obligation	$ 955	$ 955
Long-term debt, net of current portion:		
Debt facility and capital lease obligation	$ 48,748	$ 48,748
Convertible secured notes (2)	1,962	
Convertible subordinated debentures (3)	86,250	86,250
Total long-term debt	136,960	134,998
Stockholders equity:		
Preferred stock, $0.001 par value per share; 100,000,000 shares authorized actual and pro forma as adjusted; 1,868,667 shares issued and outstanding actual; zero shares issued and outstanding pro forma as adjusted (4)	2	

Common stock, $0.001 par value per share; 300,000,000 shares authorized actual and pro forma as adjusted; 24,188,739 shares issued and outstanding actual; and 27,260,389 shares issued and outstanding pro forma as adjusted (5)(6)	24	27
Additional paid-in capital	836,108	838,187
Deferred stock-based compensation	(7,458)	(7,458)
Accumulated other comprehensive income	843	843
Accumulated deficit	(514,443)	(514,443)
Total stockholders equity	315,076	317,156
Total capitalization (excludes current portion of long-term debt)	$ 452,036	$ 452,154

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(1) The pro forma as adjusted column does not reflect any of the recent developments discussed elsewhere in this prospectus supplement including: (i) the Los Angeles sale-leaseback transaction, (ii) the Ashburn IBX property acquisition and the Ashburn campus financing, (iii) the San Jose ground lease termination and (iv) the $30.0 million drawdown from our $50.0 million Silicon Valley Bank revolving credit line.

(2) Convertible secured notes are convertible into 224,229 shares of common and preferred stock as of September 30, 2005 (237,309 shares including accrued and unpaid interest through September 30, 2005).

(3) Convertible subordinated debentures are convertible into 2,183,548 shares of common stock as of September 30, 2005.

(4) Excludes 965,674 shares of preferred stock issuable upon the exercise of an outstanding warrant held by i-STT Investments Pte. Ltd. on an actual basis as of September 30, 2005. All shares of preferred stock are convertible into shares of common stock on a one for one basis.

(5) Excludes on an actual basis as of September 30, 2005, 4,482,973 shares of common stock issuable upon the exercise of outstanding options and unvested restricted stock, 152,359 shares of common stock issuable upon the exercise of outstanding common stock warrants, 2,183,548 shares reserved for the conversion of the convertible subordinated debentures, 224,229 shares reserved for the conversion of convertible secured notes (237,309 shares including accrued and unpaid interest through September 30, 2005) and 2,834,341 shares reserved for the conversion of issued and outstanding preferred stock and a preferred stock warrant.

(6) Excludes on a pro forma as adjusted basis as of September 30, 2005, 4,482,973 shares of common stock issuable upon the exercise of outstanding options and unvested restricted stock, 152,359 shares of common stock issuable upon the exercise of outstanding common stock warrants and 2,183,548 shares reserved for the conversion of the convertible subordinated debentures.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following statement of operations data for the years ended December 31, 2000 to 2004 are derived from our audited consolidated financial statements and the related notes to the financial statements. The statement of operations data for the nine months ended September 30, 2004 and 2005 and balance sheet as of September 30, 2005 are derived from our unaudited condensed interim consolidated financial statements, which in the opinion of management, include all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of our financial position and results of operations for this period. Our historical results are not necessarily indicative of the results to be expected for the full year or future periods and results for the nine months ended September 30, 2005 are not necessarily indicative of results to be expected for the full year. The following selected financial data should be read in conjunction with our consolidated financial statements and the related notes, Capitalization and Management s Discussion and Analysis of Financial Condition and Results of Operations located elsewhere in this prospectus supplement.

	Years ended December 31,					Nine months ended September 30,	
	2000	2001	2002	2003	2004	2004	2005
	(in thousands, except per share data)						
Statement of Operations Data:							
Revenues	$ 13,016	$ 63,414	$ 77,188	$ 117,942	$ 163,671	$ 118,682	$ 159,259
Costs and operating expenses:							
Cost of revenues	43,401	94,889	104,073	128,121	136,950	102,245	116,639
Sales and marketing	20,139	16,935	15,247	19,483	18,604	13,498	14,793
General and administrative	56,585	58,286	30,659	34,293	32,494	24,544	33,594
Restructuring charges		48,565	28,885		17,685		
Total costs and operating expenses	120,125	218,675	178,864	181,897	205,733	140,287	165,026
Loss from operations	(107,109)	(155,261)	(101,676)	(63,955)	(42,062)	(21,605)	(5,767)
Interest income	16,430	10,656	998	296	1,291	819	2,644
Interest expense	(29,111)	(43,810)	(35,098)	(20,512)	(11,496)	(8,765)	(6,332)
Gain (loss) on debt extinguishment and conversion			114,158		(16,211)	(16,211)	
Income taxes					(153)	(200)	(553)
Net loss	$ (119,790)	$ (188,415)	$ (21,618)	$ (84,171)	$ (68,631)	$ (45,962)	$ (10,008)
Net loss per share:							
Basic and diluted	$ (111.23)	$ (76.62)	$ (7.23)	$ (8.76)	$ (3.87)	$ (2.65)	$ (0.43)
Weighted average shares	1,077	2,459	2,990	9,604	17,719	17,370	23,335
Pro forma net loss per share (unaudited) (1):							
Basic and diluted					$ (2.82)		$ (0.38)
Weighted average shares					24,300		26,263

(1) Pro forma net loss per share reflects the conversion of the following instruments held by i-STT Investments Pte. Ltd. that are convertible into common stock as if they had been converted on January 1, 2004: (i) 1,868,667 shares of common stock upon conversion of outstanding shares of series A preferred stock, (ii) 3,746,167 shares of common stock issuable upon conversion of $33,598,000 of the selling stockholder s convertible secured notes plus $784,000 of accrued but unpaid interest that were outstanding as of December 31, 2003 (because the selling stockholder converted 95% of its outstanding convertible secured notes and associated interest during the quarter ended March 31, 2005, for purposes of the pro forma net loss per share amount for the nine months ended September 30, 2005, only 93,117 shares were added to the weighted average shares outstanding for that period) and (iii) 965,674 shares of common stock issuable upon exercise of an outstanding series A-1 preferred stock warrant and conversion of the series A-1 preferred stock issuable thereunder into shares of common stock.

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	As of December 31,					As of September 30,
	2000	2001	2002	2003	2004	2005
	(dollars in thousands)					
Balance Sheet Data:						
Cash, cash equivalents and short-term and long-term investments	$ 207,210	$ 87,721	$ 41,216	$ 72,971	$ 108,092	$ 108,290
Accounts receivable, net	4,925	6,909	9,152	10,178	11,919	16,199
Restricted cash and short-term investments	36,855	28,044	4,407	1,835	84	82
Property and equipment, net	315,380	325,226	390,048	343,554	343,361	371,005
Construction in progress	94,894	103,691				
Total assets	683,485	575,054	492,003	464,532	501,798	533,380
Debt facilities and capital lease obligations, less current portion	6,506	6,344	3,633	723	34,529	48,748
Credit facility, less current portion		105,000	89,529	22,281		
Senior notes	185,908	187,882	28,908	29,220		
Convertible secured notes			25,354	31,683	35,824	1,962
Convertible subordinated debentures					86,250	86,250
Total stockholders equity	375,116	203,521	284,194	320,077	273,706	315,076

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MANAGEMENT S DISCUSSION AND ANALYSIS

OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information in this discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are based upon current expectations that involve risks and uncertainties. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, the words believes, anticipates, plans, expects, intends and similar expressions are intended to identify forward-looking statements. Our actual results and the timing of certain events may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such a discrepancy include, but are not limited to, those discussed in Risk Factors and Liquidity and Capital Resources located elsewhere in this prospectus supplement. 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 network providers. Through our IBX centers in eleven markets in the U.S. and Asia-Pacific, customers can directly interconnect with each other for critical traffic exchange requirements. As of September 30, 2005, we had announced IBX centers totaling an aggregate of approximately 1.7 million gross square feet in the Chicago, Dallas, Honolulu, Los Angeles, New York, Silicon Valley and Washington, D.C. areas in the United States and Hong Kong, Singapore, Sydney and Tokyo in the Asia-Pacific region.

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

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

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Strategically, we will continue to look at attractive opportunities to grow our market share and selectively improve our footprint and service offerings, such as our acquisition of the Sprint property in Santa Clara in December 2003, our 2004 expansions in the Washington, D.C. and Silicon Valley metro area markets and our 2005 expansions in the Silicon Valley, Chicago and Los Angeles metro area markets. However, we will continue to be very selective with any similar opportunity. As was the case with these recent expansions in the Washington, D.C., Silicon Valley, Chicago and Los Angeles area markets, the criteria will be dependent on demand from new and existing customers, quality of the design, power capacity, access to networks, capacity availability in current market location, amount of incremental investment required by us in the targeted property, lead-time to breakeven and in-place customers. Like our recent expansions, the right combination of these factors may be attractive for us. Dependent on the particular deal, these acquisitions may require upfront cash payments and additional capital expenditures or may be funded through long-term financing arrangements in order to bring these centers up to Equinix standard. Property expansion may be in the form of a purchase of real property, as was the case with our recent Los Angeles IBX acquisition, or a long-term leasing arrangement.

In addition to our successful strategy of acquiring previously or partially built-out centers, we will also consider the possibility of new construction in selective markets where the inventory for high quality data centers is limited. Decisions to build will consider factors such as customer demand, market pricing and the financial returns associated with the construction. Future purchases or construction would likely be completed with partners or potential customers to minimize the outlay of cash.

Recent Developments

During the nine months ended September 30, 2005, the following significant events occurred:

In January 2005, we converted $38.0 million, or 95%, of the outstanding convertible secured notes and unpaid interest, held by STT Communications, into 4.1 million shares of our preferred stock, which was subsequently converted into 4.1 million shares of our common stock in February 2005. We refer to this transaction as the STT convertible secured notes conversion.

In February 2005, the Compensation Committee of the Board of Directors approved the issuance of 320,500 shares of restricted shares of common stock to executive officers. On the date of grant of the restricted shares in February 2005, we recorded a $14.4 million deferred stock-based compensation charge.

In June 2005, we entered into a 15 year lease for a 120,000 square foot data center in the Silicon Valley area. We refer to this transaction as the Sunnyvale IBX acquisition. Payments under this lease total $45.3 million.

In July 2005, we entered into (i) a 10 year sublease of a 107,000 square foot data center in the Chicago metro area and (ii) an asset purchase agreement to purchase the IBX plant and machinery assets located within this new IBX center from Verio. We refer to this transaction as the Chicago IBX acquisition. Payments due to Verio under the sublease and the asset purchase total $25.2 million.

In September 2005, we purchased a 107,000 square foot data center in the Los Angeles metro area for $34.7 million, which is comprised of the building, building improvements and land. We refer to this transaction as the Los Angeles IBX acquisition. In October 2005, we entered into a purchase and sale agreement to sell the Los Angeles IBX data center for $38.7 million and to lease it back from the purchaser pursuant to a long-term lease. We refer to this transaction as the Los Angeles IBX sale-leaseback transaction. The Los Angeles IBX sale-leaseback transaction is subject to certain closing contingencies. Although there can be no assurance that these contingencies will be met, it is expected that these conditions will be removed on November 1, 2005 and the Los Angeles IBX sale-leaseback transaction will close before the end of 2005.

In September 2005, we entered into a $50.0 million revolving line of credit agreement with Silicon Valley Bank, replacing the previously outstanding $25.0 million line of credit arrangement with the

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same bank. The new $50.0 million Silicon Valley Bank revolving credit line has a three-year commitment, which enables us to borrow, repay and re-borrow the full amount, up to September 15, 2008. We refer to this transaction as the $50.0 million Silicon Valley Bank revolving credit line.

In October 2005, we purchased an office/warehouse complex known as the Beaumeade Business Park located in Ashburn, Virginia, which we refer to as the Ashburn campus. We purchased the entire 32.6-acre Ashburn campus containing six buildings with approximately 462,000 rentable square feet that is approximately 95% leased. We refer to this transaction as the Ashburn IBX property acquisition. We currently occupy approximately 269,000 square feet within three of the buildings. Payments due under the Ashburn IBX property acquisition total $53.0 million plus closing costs, which the Company paid for in full in October 2005. We will continue to operate our existing data centers within the Ashburn campus. We intend to sell those buildings that will not be used for our current operations or expansion plans. In addition, we have entered into a non-binding letter of intent to finance the Ashburn campus with a $60.0 million, 8% mortgage to be amortized over 20 years. We refer to this transaction as the Ashburn campus financing. The Ashburn campus financing is subject to the completion of definitive agreements, and although there is no assurance that the definitive agreements will be completed, we currently expect the Ashburn campus financing to close before the end of 2005.

In October 2005, we elected to draw down a portion of the $50.0 million Silicon Valley Bank revolving credit line. We elected to borrow $30.0 million at a one-month LIBOR interest rate, inclusive of the applicable margin, of 5.72% per annum, which we refer to as the $30.0 million drawdown. The $30.0 million drawdown was used to fund a portion of the purchase of the Ashburn IBX property acquisition. On November 17, 2005 we may elect to either repay all or a portion of the $30.0 million drawdown, or convert the $30.0 million drawdown into a new borrowing at either the then applicable one, three or six month LIBOR rate plus an applicable margin or at the prime rate. Borrowings under the $50.0 million Silicon Valley Bank revolving credit line may be borrowed, repaid and reborrowed at a later date up to the final maturity date of the $50.0 million Silicon Valley Bank revolving credit line, which is Sept 16, 2008. As of October 28, 2005, in addition to the $30.0 million drawdown described above, we had utilized $5.2 million of the credit line through the issuance of letters of credit, and, as a result, we had $14.8 million remaining available for borrowing under the $50.0 million Silicon Valley Bank revolving credit line.

In October 2005, we announced that we have entered into a non-binding letter of intent for the early termination of our 39 acre San Jose ground lease whereby we will pay $40.0 million over the next four years, commencing January 1, 2006, to terminate this lease, which would otherwise require significantly higher cumulative lease payments through 2020. We refer to this transaction as the San Jose ground lease termination. As a result of the San Jose ground lease termination, we expect to incur a significant restructuring charge in the fourth quarter of 2005. The San Jose ground lease termination is subject to the completion of definitive agreements, and although there is no assurance that the definitive agreements will be completed, the Company currently expects the San Jose ground lease termination to close before the end of 2005.

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;

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Accounting for income taxes;

Estimated and contingent liabilities;

Accounting for property and equipment;

Impairment of long-lived assets, including goodwill;

Accounting for leases and IBX acquisitions;

Accounting for restructuring charges; and

Accounting for stock-based compensation.

Revenue Recognition and Allowance for Doubtful Accounts. We derive more than 90% of our revenues from recurring revenue streams, consisting primarily of (1) colocation services, such as from the licensing of cabinet space and power; (2) interconnection services, such as cross connects and Gigabit Ethernet ports to connect customers within our facilities and (3) managed infrastructure services, such as Equinix Direct, bandwidth and 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 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, although generally paid in a lump sum upon installation, are deferred and recognized ratably over the term of the related contract or expected customer relationship. Professional service fees are recognized in the period in which the services were provided and represent the culmination of the earnings process as long as they meet the criteria for separate recognition under EITF Abstract No. 00-21, Revenue Arrangements with Multiple Deliverables. Revenue from bandwidth and equipment is recognized on a gross basis in accordance with EITF Abstract No. 99-19, Recording Revenue as a Principal versus Net as an Agent , primarily because we act as the principal in the transaction, take title to products and services and bear inventory and credit risk. To the extent we do not meet the criteria for gross basis accounting for bandwidth and equipment revenue, we record the revenue on a net basis. Revenue from contract settlements is recognized on a cash basis when collectible and no remaining performance obligations exist to the extent that the revenue has not previously been recognized.

We occasionally 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; however, during the nine months ended September 30, 2005, we recorded a total of $607,000 in service level credits to various customers primarily in connection with two separate power outages that affected our Chicago and Washington, D.C. metro area IBX centers.

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. We assess 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, although in certain cases we obtain a security interest in a customer s equipment placed in our IBX centers or obtain a deposit. 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. A specific bad debt reserve of up to the full amount of a particular invoice value is provided for certain problematic customer balances. A general reserve is established for all other accounts based on the age of the invoices. Delinquent account balances are written-off after management has determined that the likelihood of collection is not probable.

Our customer base has historically been composed of businesses throughout the U.S. Commencing in the 2003 fiscal year our revenues included 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. For the year ended December 31, 2004 our revenues were split approximately 87% in the U.S. and 13% in Asia- Pacific. For the nine months ended September 30, 2004, our revenues were split approximately 87% in the U.S. and 13% in Asia-Pacific. For the nine months ended September 30, 2005, our revenues were split approximately 87% in the U.S. and 13% in Asia-Pacific. We perform ongoing credit evaluations of our customers. As of September 30, 2005, one customer, IBM, accounted for 11% of revenues for the nine months then ended and 12% of accounts receivable. As of September 30, 2004, this same customer accounted for 13% of revenues for the prior nine month period and 12% of accounts receivable. As of December 31, 2004, this same customer accounted for 13% of annual revenues and 12% of accounts receivable. As of December 31, 2003, this same customer 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. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are expected more likely than not to be realized in the future. The assessment of whether or not a valuation allowance is required often requires significant judgment including the forecast of future taxable income and the evaluation of tax planning strategies in each of the jurisdictions in which we operate. We also account for any income tax contingencies in accordance with SFAS No. 5, Accounting for Contingencies.

We currently have provided for a full valuation allowance against our net deferred tax assets. We have considered the positive and negative evidences affecting the assessment of a full valuation allowance. Based on the available objective evidence, management does not believe it is more likely than not that the net deferred tax assets will be realizable in the future. 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 benefit net income in the period such determination is made.

In preparing the consolidated financial statement, we are required to estimate our income taxes in each of the jurisdictions in which we operate. The determination of income taxes also involves estimating the impact of additional taxes resulting from tax examinations and uncertainties in the application of complex tax laws and regulations. Accruals for tax contingencies require management to estimate the actual outcome of any such audits and the impact of uncertainties. Actual results could vary from these estimates.

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

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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 center 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 cash flows. 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 centers 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 equipment and seven to twelve years for IBX 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, Including Goodwill. 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 centers 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. We currently operate in one reportable segment; however our goodwill is attributed solely to our Singapore reporting unit.

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 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 September 30, 2005, included property and equipment of $371.0 million and goodwill and other identifiable intangible assets of $21.5 million. Our net long-lived assets as of December 31, 2004 and December 31, 2003, included property and equipment of $343.4 million and $343.6 million, respectively, and goodwill and other identifiable intangible assets of $22.3 million and $23.5 million, respectively.

Accounting for Leases and IBX acquisitions. We currently have 15 operational IBX centers in the U.S. and Asia-Pacific and 3 that are not yet operational. Our strategy had been to enter into long-term leases for our IBX

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centers rather than to purchase and own these properties; however, commencing with our recent purchases of the properties in the Los Angeles and Washington, D.C. metro areas, we have altered this strategy by purchasing rather than leasing these properties. While we ultimately entered into a sale-leaseback arrangement with respect to the recently acquired Los Angeles IBX property, we may decide to purchase, rather than lease, other property in the future as well. The majority of our IBX centers are accounted for as operating leases; however, in April 2004, we entered into a long-term lease for a 95,000 square foot data center in the Washington, D.C. metro area, which we refer to as our new Washington, D.C. metro area IBX. This lease, which includes the leasing of all of the IBX plant and machinery equipment located in the building, is a capital lease. We account for leases in accordance with SFAS No. 13, Accounting for Leases. Although we do not have title to any of the leased assets contained in our new Washington, D.C. metro area IBX, this lease qualified for capital lease treatment as a result of the present value of the minimum lease payments equaling or exceeding 90% of the fair value of the leased property. Our analysis of this lease required significant judgment and estimates in order to assess the fair value of the leased property and determine our incremental borrowing rate given no implicit rate was defined within the lease to allow us to calculate the present value of the minimum lease payments. In addition, as this lease contained land, building and equipment elements, we had to separate the individual elements and analyze each element separately, which is the same type of analysis we have to do in a purchase transaction such as our recent purchase of property in the Los Angeles metro area, since we are acquiring land, building and equipment elements.

While our first seven IBX centers were designed and built by us, in light of the availability of fully built-out data centers in select markets at costs significantly below those costs we would incur in building out new space, we have altered our business strategy to acquire partially or fully built-out data centers rather than build out our own data centers in order to meet our IBX expansion needs. Each individual IBX expansion transaction, either in the form of a long-term lease or the purchase of real property, is unique. For example, with respect to the Santa Clara IBX acquisition in December 2003, rather than enter into a long-term lease for both the building and data center plant and equipment like the Washington, D.C. metro area IBX transaction mentioned above, we leased only the building in Santa Clara and purchased the data center property and equipment located in the building. Yet, the building lease had payment terms which were at a premium to prevailing market rates for similar properties at the time of signing the lease. As a result, we recorded an unfavorable lease liability, which is being amortized into rent expense over the term of the lease. Also, given that the Santa Clara data center was an operating data center, unlike the vacant Washington, D.C. metro area data center, we were required to negotiate with various customers located in the data center and enter into new contracts with these customers. In addition, we hired a number of the employees that were already working in this data center. As a result, we recorded several intangible assets.

In summary, each individual data center expansion will require a significant amount of judgment and management estimates in order to properly address the accounting treatment.

Accounting for Restructuring Charges. We have recorded restructuring charges in three of the past five years as we modified our business strategy in light of changing economic circumstances. Most recently, in December 2004, in light of the availability of fully built-out data centers in select markets at costs significantly below those costs we would incur in building out new space, we made the decision to exit leases for excess space adjacent to one of our New York metro area IBXs, as well as space on the floor above our original Los Angeles IBX. As a result of our decision to exit these spaces, we recorded a restructuring charge totaling $17.7 million, which represents the present value of our estimated future cash payments, net of any estimated subrental income and expense, through the remainder of these lease terms, as well as the write-off of all remaining property and equipment attributed to the excess space on the floor above our Los Angeles IBX. We entered into a two-year sublease agreement for the excess space in the New York metro area and are currently evaluating opportunities related to our excess space in Los Angeles. In addition, as a result of the San Jose ground lease termination, we expect to incur a significant restructuring charge in the fourth quarter of 2005.

We account for such activities in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Under the provisions of SFAS No. 146, we had to estimate the future cash payments required to exit these two leases, net of any estimated sub-rental income and expense, through the remainder of these lease terms and then determine the present value of such future cash flows to record the appropriate

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restructuring charge. In future periods, we will record accretion expense to accrete our accrued restructuring liability up to an amount equal to the total estimated future cash payments necessary to complete the exit of these leases. This restructuring activity required a significant amount of judgment and management estimates in order to determine a reasonable scenario of future net cash flows required to exit these leases, as well as to determine the appropriate discount rate to calculate the present value of the future net cash flows. Should the actual lease exit costs differ from our estimates, we may be required to adjust our restructuring charges associated with these two leases, which would impact net income in the period such determination was made. In addition, in the future, circumstances may change which would require us to record additional restructuring charges, which would require similar levels of judgment and management estimates in order to determine the appropriate restructuring charge to record.

Accounting for Stock-Based Compensation. We account for stock-based compensation plans in accordance with SFAS No. 123, Accounting for Stock-Based Compensation. As permitted under SFAS No. 123, we use the intrinsic value-based method of Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, to account for our 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 our shares and the exercise price of the option. Unearned deferred compensation resulting from employee 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. We have also adopted the disclosure requirements of SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of SFAS No. 123.

Primarily as a result of employee stock options being granted at exercise prices below fair market value prior to our initial public offering (IPO) in August 2000, we recorded a deferred stock-based compensation charge on our balance sheet of $54.5 million in 2000, which was 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. The amortization of the deferred stock-based compensation related to these pre-IPO stock options ended in August 2004. Subsequent to our IPO, since we generally only grant stock options at fair value on the date of grant, we currently do not have any significant deferred stock-based compensation remaining to be amortized. In addition, in February 2005, the Compensation Committee of the Board of Directors approved the issuance of 320,500 shares of restricted shares of common stock to executive officers. These restricted shares are subject to four-year vesting, and will only vest if the stock appreciates to certain pre-determined levels. These restricted shares are a compensatory plan under the provisions of APB Opinion No. 25 and are accounted for as variable awards. As a result, compensation cost will be adjusted for changes in the market price of our common stock until the restricted shares become vested. On the date of grant of the restricted shares in February 2005, we recorded a $14.4 million deferred stock-based compensation charge. For the nine months ended September 30, 2005, we recognized a reduction in deferred stock-based compensation of $976,000 as a result of a declining stock price and recorded $6.0 million of stock-based compensation expense related to these restricted shares for the nine months ended September 30, 2005. As of September 30, 2005, there was a total of $7.4 million of deferred stock-based compensation remaining to be amortized related to these restricted shares. We expect stock-based compensation expense related to these restricted shares to impact our results of operations through 2008. As of September 30, 2005, deferred stock-based compensation on our balance sheet totaled $7.5 million, and for the nine months ended September 30, 2005 and 2004, we recognized stock-based compensation expense of $6.3 million and $1.0 million respectively. As of December 31, 2004, deferred stock-based compensation on our balance sheet totaled $260,000, and for the years ended December 31, 2004, 2003 and 2002, we recognized stock-based compensation expense of $1.5 million, $2.9 million and $6.9 million, respectively. Had we recognized stock-based compensation under the fair value provisions of SFAS No. 123, we would have recognized stock-based compensation expense of $27.8 million and $16.2 million for the nine months ended September 30, 2005 and 2004, respectively, using the Black-Scholes option-pricing model with assumptions appropriate to these periods. Had we recognized stock- based compensation under the fair value provisions of SFAS No. 123, we would have recognized stock-based compensation expense of $20.8 million , $10.2 million and $12.9 million for the years ended December 31, 2004,

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2003 and 2002, respectively, using the Black-Scholes option-pricing model with assumptions appropriate to these periods. For further detailed information on how we calculated these pro forma stock-based compensation charges, see Note 1 of our Notes to Consolidated Financial Statements in our financial statements found elsewhere in this prospectus supplement.

In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payment. SFAS No. 123(R) revises SFAS No. 123, Accounting for Stock-Based Compensation and requires companies to expense the fair value of employee stock options and other forms of stock-based compensation, such as employee stock purchase plans and restricted stock awards. In addition, SFAS No. 123(R) supercedes Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees and amends SFAS No. 95, Statement of Cash Flows. Under the provisions of SFAS No. 123(R), stock-based compensation awards must meet certain criteria in order for the award to qualify for equity classification. An award that does not meet those criteria will be classified as a liability and be remeasured each period. SFAS No. 123(R) retains the requirements on accounting for the income tax effects of stock-based compensation contained in SFAS No. 123; however, it changes how excess tax benefits will be presented in the statement of cash flows. In addition, in March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB No. 107), which offers guidance on SFAS No. 123(R). SAB No. 107 was issued to assist preparers by simplifying some of the implementation challenges of SFAS No. 123(R) while enhancing the information that investors receive. Key topics of SAB No. 107 include discussion on the valuation models available to preparers and guidance on key assumptions used in these valuation models, such as expected volatility and expected term, as well as guidance on accounting for the income tax effects of SFAS No. 123(R) and disclosure considerations, among other topics. SFAS No. 123(R) and SAB No. 107 were effective for reporting periods beginning after June 15, 2005; however in April 2005, the SEC approved a new rule that SFAS No. 123(R) and SAB No. 107 are now effective for public companies for annual, rather than interim, periods beginning after June 15, 2005. We are currently considering the financial accounting, income tax and internal control implications of SFAS No. 123(R), including related FASB Staff Positions issued during 2005, and SAB No. 107. The adoption of SFAS No. 123(R), including related FASB Staff Positions issued during 2005, and SAB No. 107 are expected to have a significant impact on our financial position and results of operations.

Results of Operations

Nine Months Ended September 30, 2005 and 2004

Revenues. Our revenues for the nine months ended September 30, 2005 and 2004 were split between the following revenue classifications (dollars in thousands):

	Nine months ended September 30,			
	2005	%	2004	%
Recurring revenues	$ 149,623	94%	$ 111,811	94%
Non-recurring revenues:				
Installation and professional services	8,777	5	5,982	5
Other	859	1	889	1
	9,636	6	6,871	6
Total revenues	$ 159,259	100%	$ 118,682	100%

Our revenues for the nine months ended September 30, 2005 and 2004 were geographically comprised of the following (dollars in thousands):

	Nine months ended September 30,			
	2005	%	2004	%
U.S. revenues	$ 137,927	87%	$ 102,893	87%
Asia-Pacific revenues	21,332	13	15,789	13
Total revenues	$ 159,259	100%	$ 118,682	100%

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We recognized revenues of $159.3 million for the nine months ended September 30, 2005 as compared to revenues of $118.7 million for the nine months ended September 30, 2004, a 34% increase. 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 recurring as our customers are billed on a fixed and recurring basis each month for the duration of their contract, which is generally one to three years in length. Our recurring revenues are a significant component of our total revenues comprising greater than 90% of our total revenues for the nine months ended September 30, 2005 and 2004. Historically, approximately half of our then existing customers order new services in any given quarter representing greater than half of the new orders each quarter. 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. The non-recurring revenues are typically billed on the first invoice distributed to the customer. As a percent of total revenues, we expect non-recurring revenues to represent less than 10% of total revenues for the foreseeable future. Other non-recurring revenues are comprised primarily of customer settlements, which represent fees paid to us by customers who wish to terminate their contracts with us prior to their expiration. To review our revenue recognition policies for our 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) weighted-average percentage utilization. Our customer count increased to 1,093 as of September 30, 2005 versus 896 as of September 30, 2004, an increase of 22%. Our weighted-average utilization rate represents the percentage of our cabinet space billing versus total cabinet space available. Our weighted-average utilization rate grew to 51% as of September 30, 2005 from 43% as of September 30, 2004; however, excluding the impact of our recent expansions in the Washington, D.C. and Silicon Valley area markets, our weighted-average utilization rate would have been 55% as of September 30, 2005. Although we have substantial capacity for growth, our utilization rates vary from market to market among our IBX centers in the eleven markets across the U.S. and Asia-Pacific. 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. In addition, power and cooling requirements for some customers are growing on a per unit basis. As a result, customers are consuming an increasing amount of power per cabinet. Although we generally do not control the amount of draw our customers take from installed circuits, we have negotiated power consumption limitations with certain of our high power demand customers. We could face power limitations in our centers even though we may have additional physical capacity available within a specific IBX center. This could have a negative impact on the available utilization capacity of a given center, which could have a negative impact on our ability to grow revenues, affecting our financial performance, operating results and cash flows. Therefore, consistent with our recent expansions in the Washington, D.C., Silicon Valley, Chicago and Los Angeles metro area markets, we will continue to closely manage available space and power capacity in each of our operating markets and expect to continue to make strategic and selective expansions to our global footprint when and where appropriate.

U.S. Revenues. We recognized U.S. revenues of $137.9 million for the nine months ended September 30, 2005 as compared to $102.9 million for the nine months ended September 30, 2004. U.S. revenues consisted of recurring revenues of $129.8 million and $97.3 million, respectively, for the nine months ended September 30, 2005 and 2004, a 33% 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 nine months ended September 30, 2005 included $4.7 million of revenue generated from the recently acquired Washington, D.C. area and Silicon Valley area IBX centers, which opened for business in the fourth quarter of 2004 and first

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quarter of 2005, respectively. Excluding revenues from these recently acquired U.S. IBX centers, the period over period growth in recurring revenues was primarily the result of an increase in orders from both our existing customers and new customer growth acquired during the period as reflected in the growth in our customer count and weighted-average utilization rate as discussed above. We expect our U.S. recurring revenues to continue to remain our most significant source of revenue for the foreseeable future.

In addition, U.S. revenues consisted of non-recurring revenues of $8.1 million and $5.6 million, respectively, for the nine months ended September 30, 2005 and 2004. Non-recurring revenues are primarily related to the recognized portion of deferred installation, professional services and settlement fees associated with certain contract terminations. Included in U.S. non-recurring revenues are settlement fees of $817,000 and $609,000, respectively, for the nine months ended September 30, 2005 and 2004. Offsetting some of this non-recurring revenue for the three months ended September 30, 2005, were service level credits that we recorded totaling $607,000 that were issued or will be issued to certain of our customers related to two separate power outages in our Chicago and Washington, D.C. metro area IBX centers. There were no significant service level credits recorded in the nine months ended September 30, 2004. Excluding settlements and service level credits, U.S. non-recurring revenues, consisting of the recognized portion of deferred installation and professional services, increased 59% period over period, primarily due to strong existing and new customer growth during the year, as well as the completion of certain custom projects for the U.S. government during the quarter ended March 31, 2005.

Asia-Pacific Revenues. We recognized Asia-Pacific revenues of $21.3 million for the nine months ended September 30, 2005 as compared to $15.8 million for the nine months ended September 30, 2004, a 35% increase. Asia-Pacific revenues consisted of recurring revenues of $19.8 million and $14.5 million, respectively, for the nine months ended September 30, 2005 and 2004, consisting primarily of colocation and managed infrastructure services. In addition, Asia-Pacific revenues consisted of non-recurring revenues of $1.5 million and $1.3 million, respectively, for the nine months ended September 30, 2005 and 2004. Asia-Pacific non-recurring revenues included $42,000 and $280,000, respectively, of contract settlement revenue for the nine months ended September 30, 2005 and 2004. There were no settlement fees recognized for the nine months ended September 30, 2005. Asia-Pacific revenues are generated from Hong Kong, Singapore, Sydney and Tokyo, with Singapore representing approximately 46% and 53%, respectively, of the regional revenues for the nine months ended September 30, 2005 and 2004. Our Asia-Pacific colocation revenues are similar to the revenues that we generate from our U.S. IBX centers; however, our Singapore IBX center has additional managed infrastructure service revenue, such as mail service and managed platform solutions, which we do not currently offer in any other IBX center location. The growth in our Asia-Pacific revenues is primarily the result of an increase in the customer base in this region during the past year, particularly in Hong Kong, Sydney and Tokyo.

Cost of Revenues. Cost of revenues were $116.6 million for the nine months ended September 30, 2005 as compared to $102.2 million for the nine months ended September 30, 2004, a 14% increase. The largest cost components of our cost of revenues are depreciation, rental payments related to our leased IBX centers, utility costs including electricity and bandwidth, IBX employees salaries and benefits, 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 supplies, that are directly related to growth of services in our existing and new customer base. We expect the cost of our utilities, specifically electricity, will increase in the future on a per unit or fixed basis in addition to on a customer growth or variable basis. In addition, the cost of electricity is generally higher in the summer months compared to other times of the year.

U.S. Cost of Revenues. U.S. cost of revenues were $101.5 million for the nine months ended September 30, 2005 as compared to $88.6 million for the nine months ended September 30, 2004. U.S. cost of revenues for the nine months ended September 30, 2005 included (i) $42.2 million of depreciation expense and (ii) $1.0 million of accretion expense comprised of our asset retirement obligation for our various leaseholds and the two leases for which we took a restructuring charge in the fourth quarter of 2004, as we are now accreting the related liability to exit these two leases to an amount equal to the total estimated future cash payments needed. U.S. cost of revenues for the nine months ended September 30, 2004 included (i) $37.5 million of depreciation expense, (ii) $35,000 of stock-based compensation expense, (iii) $258,000 of accretion expense associated with our asset retirement obligation for our various leaseholds and (iv) $121,000 of amortization expense associated with an intangible asset associated with our Santa Clara IBX center that became fully amortized in December 2004. Our U.S. cost of revenues for the nine months ended September 30, 2005 also included $4.6 million of other operating costs associated with the recently acquired Washington, D.C. and Silicon Valley metro area IBX centers, which opened for business in the fourth quarter of 2004 and first quarter of 2005, respectively, and our other recently acquired Silicon Valley IBX center and our recently purchased Los Angeles metro area IBX center, both of which won t be available to customers until 2006. Excluding depreciation, stock-based compensation, accretion expense, amortization expense and the costs associated with operating these new IBX centers, U.S. cost of revenues increased period over period to $53.7 million for the nine months ended September 30, 2005 from $50.7 million for the nine months ended September 30, 2004, a 6% increase. This increase is primarily the result of increasing utility costs in line with increasing customer installations and revenues attributed to customer growth. We continue to anticipate that our cost of revenues will increase in the foreseeable future to the extent that the occupancy levels in our U.S. IBX centers increase and as the costs attributed to newly-acquired IBX centers in the Silicon Valley, Chicago and Los Angeles metro areas commence operations more fully in the fourth quarter of 2005. However, a portion of our expected increase in U.S. cost of revenues will be partially offset by a reduction in rent expense as a result of our October 2005 purchase of the Ashburn campus where our Washington, D.C. metro area IBX center is located. We expect that this savings in rent expense will be approximately $530,000 per quarter, commencing partially in the fourth quarter of 2005, although this decrease in rent expense will be somewhat mitigated by an increased level of depreciation for this property. In addition, U.S. cost of revenues would also decrease as a result of our San Jose ground lease termination, which is expected to close before the end of 2005.

Asia-Pacific Cost of Revenues. Asia-Pacific cost of revenues were $15.1 million for the nine months ended September 30, 2005 as compared to $13.6 million for the nine months ended September 30, 2004. Asia-Pacific cost of revenues for the nine months ended September 30, 2005 included $2.9 million of depreciation expense and $195,000 of non-cash rent expense associated with the value attributed to warrants issued in May 2004 to our landlord in connection with a lease amendment for our Hong Kong IBX center. Asia-Pacific cost of revenues for the nine months ended September 30, 2004 included $2.7 million of depreciation expense and $129,000 of non-cash rent expense. Excluding depreciation and non-cash rent expense, Asia-Pacific cost of revenues increased period over period to $12.0 million for the nine months ended September 30, 2005 from $10.8 million for the nine months ended September 30, 2004, a 12% increase. This increase is primarily the result of increasing utility and bandwidth costs in line with increasing customer installations and revenues attributed to this customer growth. Our Asia-Pacific cost of revenues are generated in Hong Kong, Singapore, Sydney and Tokyo. There are several managed infrastructure service revenue streams unique to our Singapore IBX center, 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 center has a greater number of employees than any of our other IBX centers, and therefore, a greater labor cost relative to our other IBX centers in the United States or other Asia-Pacific locations. We anticipate that our Asia-Pacific cost of revenues will experience moderate growth in the foreseeable future consistent with our anticipated growth in revenues.

Sales and Marketing. Sales and marketing expenses increased to $14.8 million for the nine months ended September 30, 2005 from $13.5 million for the nine months ended September 30, 2004.

U.S. Sales and Marketing Expenses. U.S. sales and marketing expenses increased to $12.6 million for the nine months ended September 30, 2005 from $9.9 million for the nine months ended September 30, 2004. Included in U.S. sales and marketing expenses for the nine months ended September 30, 2005 were $1.1 million of stock-based compensation expense and $45,000 of amortization expense associated with an intangible asset in connection with our Santa Clara IBX center. Included in U.S. sales and marketing expenses for the nine months ended September 30, 2004 was $51,000 of stock-based compensation expense and $44,000 of amortization

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expense associated with an intangible asset in connection with our Santa Clara IBX center. The increase in the stock-based compensation expense period over period is a result of the non-cash charge attributed to restricted stock awards granted to our sales and marketing executive officers in the first quarter of 2005. Excluding stock-based compensation and amortization expense, U.S. sales and marketing expenses increased to $11.4 million for the nine months ended September 30, 2005 as compared to $9.8 million for the nine months ended September 30, 2004, a 16% 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. This increase is primarily due to approximately $1.7 million of higher compensation costs, including increases in sales compensation related to strong new customer bookings throughout 2005, general salary increases and bonuses for our marketing staff and non-commissioned sales staff, as well as some moderate headcount growth (67 U.S. sales and marketing employees as of September 30, 2005 versus 65 as of September 30, 2004). Going forward, we expect to see U.S. sales and marketing spending increase nominally in absolute dollars as we continue to grow our business.

Asia-Pacific Sales and Marketing Expenses. Asia-Pacific sales and marketing expenses decreased to $2.2 million for the nine months ended September 30, 2005 as compared to $3.6 million for the nine months ended September 30, 2004. Included in Asia-Pacific sales and marketing expenses for the nine months ended September 30, 2004 were $1.4 million of amortization expense associated with several intangible assets associated with our Singapore operations, which became fully amortized in December 2004. Excluding amortization expense, Asia-Pacific sales and marketing expenses remained flat at $2.2 million during both the nine months ended September 30, 2005 and 2004. While there was an increase of approximately $130,000 in higher compensation costs during this period, primarily due to some moderate headcount growth (27 Asia-Pacific sales and marketing employees as of September 30, 2005 versus 24 as of September 30, 2004), this growth was offset by overall reductions in other discretionary spending in this area. 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 Hong Kong, Singapore, Sydney and Tokyo. We expect that our Asia-Pacific sales and marketing expenses will experience some moderate growth in the foreseeable future.

General and Administrative. General and administrative expenses increased to $33.6 million for the nine months ended September 30, 2005 from $24.5 million for the nine months ended September 30, 2004.

U.S. General and Administrative Expenses. U.S. general and administrative expenses increased to $27.7 million for the nine months ended September 30, 2005 as compared to $19.6 million for the nine months ended September 30, 2004. Included in U.S. general and administrative expenses for the nine months ended September 30, 2005 were $5.1 million of stock-based compensation expense and $1.2 million of depreciation expense. Included in U.S. general and administrative expenses for the nine months ended September 30, 2004 were $933,000 of stock-based compensation expense and $1.4 million of depreciation expense. The increase in the stock-based compensation expense period over period is a result of the non-cash charge attributed to restricted stock awards granted to our executive officers in the first quarter of 2005. Excluding stock-based compensation expense and depreciation expense, U.S. general and administrative expenses increased to $21.4 million for the nine months ended September 30, 2005, as compared to $17.2 million for the prior period, a 24% increase. This increase is primarily due to approximately $3.8 million of higher compensation costs, including general salary increases, bonuses, headcount growth (150 U.S. general and administrative employees as of September 30, 2005 versus 117 as of September 30, 2004) and $597,000 related to an accrued severance charge, as well as an increase in professional fees, primarily in connection with our overall expansion and growth efforts. General and administrative expenses, excluding stock-based compensation and depreciation, consist primarily of salaries and related expenses, accounting, legal and other professional service fees and other general corporate expenses such as our corporate headquarter office lease. Going forward, we expect U.S. general and administrative spending to increase moderately in absolute dollars as we continue to scale our operations to support our growth.

Asia-Pacific General and Administrative Expenses. Asia-Pacific general and administrative expenses increased to $5.9 million for the nine months ended September 30, 2005 as compared to $4.9 million for the nine months ended September 30, 2004. Included in Asia-Pacific general and administrative expenses were $223,000 and $285,000, respectively, of depreciation expense for the nine months ended September 30, 2005 and 2004. Excluding depreciation, Asia-Pacific general and administrative expenses increased to $5.6 million for the nine months ended September 30, 2005, as compared to $4.6 million for the prior period, a 21% increase. This increase is primarily due to approximately $820,000 of higher compensation costs, including general salary increases and bonuses, as well as some headcount growth (86 Asia-Pacific general and administrative employees as of September 30, 2005 versus 69 as of September 30, 2004). Our Asia-Pacific general and administrative expenses consist of the same type of costs that we incur in our U.S. operations, namely salaries and related expenses, accounting, legal and other professional service fees and other general corporate expenses. Our Asia-Pacific general and administrative expenses are generated in Hong Kong, Singapore, Sydney and Tokyo. Our Asia-Pacific headquarter office is located in Singapore. Most of the corporate overhead support functions, similar to what 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 office locations in Tokyo and Hong Kong. We expect that our Asia-Pacific general and administrative expenses will experience some moderate growth in the foreseeable future.

Interest Income. Interest income increased to $2.6 million from $819,000 for the nine months ended September 30, 2005 and 2004, respectively. Interest income increased due to higher average cash, cash equivalent and short-term and long-term investment balances held in interest-bearing accounts during these periods, as well as higher yields on those balances due to increased interest rates.

Interest Expense. Interest expense decreased to $6.3 million from $8.8 million for the nine months ended September 30, 2005 and 2004, respectively. During the quarter ended March 31, 2004, with the proceeds from the convertible debenture offering, we paid off the remaining credit facility and two other smaller debt facilities, as well as redeemed the remaining 13% senior notes that were outstanding. Furthermore, in March 2004, the $10.0 million 10% convertible secured notes issued in connection with the Crosslink financing were converted to 2.5 million shares of our common stock. As a result of the repayments, redemption and conversion of our older debt facilities, which have been replaced with our $86.3 million 2.5% convertible subordinated debentures, our interest expense commencing with the second quarter of 2004 has been significantly reduced. In addition, during the quarter ended March 31, 2005, we converted 95% of the outstanding 14% convertible secured notes and unpaid interest held by STT Communications into 4.1 million shares of our preferred stock, which was subsequently converted into 4.1 million shares of our common stock in February 2005. All of these decreases in interest expense are partially offset by interest expense associated with the capital lease we recorded in connection with the Washington, D.C. metro area IBX center during the fourth quarter of 2004 and the debt facility we recorded in connection with the Silicon Valley metro area IBX center equipment and fiber during the first quarter of 2005, which both bear interest at 8.50%. In addition, interest expense will continue to increase, commencing in the fourth quarter of 2005, as a result of the capital lease for equipment we will record in connection with our Sunnyvale IBX acquisition in October 2005 and the debt facility for equipment we will record in connection with our Chicago IBX acquisition in November 2005, which both bear interest at 7.50%, as well as the $30.0 million drawdown from our $50.0 million Silicon Valley Bank revolving credit line during October 2005, which bears interest at an initial rate of 5.72%. Furthermore, as a result of the Los Angeles IBX sale-leaseback and the Ashburn IBX property financing transactions, both of which we expect to close before the end of 2005, interest expense will further increase.

Loss on Debt Extinguishment and Conversion. In February 2004, with the proceeds from the convertible debenture offering, we paid off the remaining credit facility and two other debt facilities, as well as redeemed the remaining 13% senior notes that were outstanding at a premium of 106.5% through March 2004. In addition, in March 2004, the 10% $10.0 million convertible secured notes issued in connection with the Crosslink financing, and which had a beneficial conversion feature, were converted to 2.5 million shares of our common stock. As a result of these various repayments, redemption and conversion of our older debt facilities, we recorded a loss on debt extinguishment and conversion of $16.2 million, comprised primarily of the write-off of the various debt issuance costs and discounts associated with these various debt facilities totaling $13.7 million, as well as the premium paid to the holders of our 13% senior notes required to redeem these early and other cash transaction costs totaling $2.5 million. There was no loss recorded in connection with the STT convertible secured notes conversion during the nine months ended September 30, 2005 as the STT convertible secured notes did not have a beneficial conversion feature at the time of issuance on December 31, 2002.

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 net value of its deferred tax assets will be realized. However, for the nine months ended September 30, 2005 and 2004, we recorded $553,000 and $200,000, respectively, of income tax expense, primarily representing income taxes related to alternative minimum tax. We have not incurred any significant income tax expense since inception and we do not expect to incur any significant income tax expense during 2005 and 2006 other than alternative minimum tax.

Years Ended December 31, 2004 and 2003

Revenues. Our revenues for the years ended December 31, 2004 and 2003 were split between the following revenue classifications (dollars in thousands):

	Year ended December 31,			
	2004	**%**	**2003**	**%**
Recurring revenues	$ 154,432	94%	$ 109,957	93%
Non-recurring revenues:				
Installation and professional services	8,350	5	6,221	5
Other	889	1	1,764	2
	9,239	6	7,985	7
Total revenues	$ 163,671	100%	$ 117,942	100%

Our revenues for the years ended December 31, 2004 and 2003 were geographically comprised of the following (dollars in thousands):

	Year ended December 31,			
	2004	**%**	**2003**	**%**
U.S. revenues	$ 141,598	87%	$ 99,669	85%
Asia-Pacific revenues	22,073	13	18,273	15
Total revenues	$ 163,671	100%	$ 117,942	100%

We recognized revenues of $163.7 million for the year ended December 31, 2004 as compared to revenues of $117.9 million for the year ended December 31, 2003, a 39% increase. 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 recurring as once a customer has been installed in one of our IBX centers 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 94% of our total revenues for the year ended December 31, 2004 as compared to 93% in the prior year. Historically, greater than half of our customers order new services each quarter and greater than half of our new orders come from our already installed customer base each quarter.

Our non-recurring revenues are primarily comprised of installation services related to a customer s initial deployment and professional services that we perform. These services are considered to be non-recurring as they are billed typically once and only upon completion of the installation or professional services work performed. The non-recurring revenues are typically billed on the first invoice distributed to the customer. Installation and professional services revenues increased 34% period over period, 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 period. Other non-recurring revenues are comprised primarily of customer settlements, which represent fees paid to us by customers who wish to terminate their contracts with us prior to the expiration of their contract.

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) weighted-average percentage utilization. Our customer count increased to 950 as of December 31, 2004 versus 712 as of December 31, 2003, an increase of 33%. Our weighted-average utilization rate represents the percentage of our cabinet space billing versus total cabinet space available. Our weighted-average utilization rate grew to 45% as of December 31, 2004 from 35% as of December 31, 2003. Although we have substantial capacity for growth, our utilization rates vary from market to market among our 15 worldwide IBX centers. 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 lease of Sprint s Santa Clara property in December 2003 and our expansion into the Washington, D.C. metro area market in April 2004 and further expansion into the Silicon Valley market in December 2004, we continually review available space in our other operating markets.

U.S. Revenues. We recognized U.S. revenues of $141.6 million for the year ended December 31, 2004 as compared to $99.7 million for the year ended December 31, 2003. U.S. revenues consisted of recurring revenues of $134.3 million and $93.6 million, respectively, for the year ended December 31, 2004 and 2003, 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, 2004 included revenue generated from the recently acquired Santa Clara IBX center. Excluding revenue from this acquired U.S. IBX hub, the period over period growth in recurring revenues was primarily the result of an increase in orders from both our existing customers and new customer growth acquired during the period as reflected in the growth in our customer count and weighted-average utilization rate as discussed above. As noted above, historically, greater than half of our new orders come from our already installed customer base each period.

In addition, U.S. revenues consisted of non-recurring revenues of $7.3 million and $6.1 million, respectively, for the year ended December 31, 2004 and 2003. Non-recurring revenues are primarily related to the recognized portion of deferred installation and professional services. Also included in U.S. non-recurring revenues are settlement fees of $609,000 and $1.2 million, respectively, for the year ended December 31, 2004 and 2003 associated with certain contract terminations. The $609,000 in settlement fees for the year ended December 31, 2004 primarily represented a bankruptcy court-mandated payment from Excite@Home. The $1.2 million in settlement fees for the year ended December 31, 2003 primarily represented bankruptcy court-mandated payments from both Worldcom and Excite@Home.

Asia-Pacific Revenues. We recognized Asia-Pacific revenues of $22.1 million for the year ended December 31, 2004 as compared to $18.2 million for the year ended December 31, 2003. Asia-Pacific revenues consisted of recurring revenues of $20.2 million and $16.3 million, respectively, for the year ended December 31, 2004 and 2003, consisting primarily of colocation and managed infrastructure services. In addition, Asia-Pacific revenues consisted of non-recurring revenues of $1.9 million for both years ended December 31, 2004 and 2003. Asia-Pacific non-recurring revenues included $280,000 and $584,000, respectively, of contract settlement revenue for the year ended December 31, 2004 and 2003. Asia-Pacific revenues are generated from Hong Kong, Singapore, Sydney and Tokyo with Singapore representing approximately 52% and 77%, respectively, of the regional revenues for the year ended December 31, 2004 and 2003. Our Asia-Pacific colocation revenues are similar to the revenues that we generate from our U.S. IBX centers; however, our Singapore IBX center has additional managed infrastructure service revenue, such as mail service and managed platform solutions, which we do not currently offer in any other

IBX center location. The growth in our Asia-Pacific revenues is primarily the result of an increase in the customer base in this region during the past year, particularly in Tokyo and Sydney; however, this revenue growth was partially offset by a decrease in low-margin bandwidth revenue in Singapore of approximately $3.1 million.

Cost of Revenues. Cost of revenues were $136.9 million for the year ended December 31, 2004 as compared to $128.1 million for the year ended December 31, 2003, a 7% increase. The largest cost components of our cost of revenues are depreciation, rental payments related to our leased IBX centers, utility costs including electricity and bandwidth, IBX employees salaries and benefits, 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 supplies, that are directly related to growth of services for 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; however, power and cooling requirements are growing on a per server basis. As a result, customers are consuming an increasing amount of power per cabinet. This, combined with the fact that we do not currently control the amount of draw our customers take from installed circuits, means that our utility costs are expected to increase in the future, and we may not be successful in raising power revenues to a sufficient level to offset such expected increases in utility costs.

U.S. Cost of Revenues. U.S. cost of revenues were $118.3 million for the year ended December 31, 2004 as compared to $107.5 million for the year ended December 31, 2003. U.S. cost of revenues included $50.1 million of depreciation expense, $35,000 of stock-based compensation expense, $355,000 of accretion expense associated with our asset retirement obligations relating to our various leaseholds and $147,000 of amortization expense associated with an intangible asset related to our Santa Clara IBX center for the year ended December 31, 2004. U.S. cost of revenues included $49.9 million of depreciation expense, $59,000 of stock-based compensation expense, $562,000 of accretion expense associated with our asset retirement obligations relating to our various leaseholds and $13,000 of amortization expense associated with an intangible asset related to our Santa Clara IBX center for the year ended December 31, 2003. Excluding depreciation, stock-based compensation, accretion expense and amortization expense, U.S. cost of revenues increased period over period to $67.7 million for the year ended December 31, 2004 from $56.9 million for the year ended December 31, 2003, a 19% increase. This increase is primarily the result of the operating costs associated with the Santa Clara IBX center acquired on December 1, 2003, as well as increasing utility costs in our IBX centers, excluding the newly-acquired Santa Clara IBX, of $4.1 million in line with increasing customer installations and revenues attributed to this customer growth and $1.2 million of higher compensation costs in our IBX centers, excluding the newly-acquired Santa Clara IBX, including general salary increases and bonuses for our IBX staff.

Asia-Pacific Cost of Revenues. Asia-Pacific cost of revenues were $18.6 million for the year ended December 31, 2004 as compared to $20.6 million for the year ended December 31, 2003. Asia-Pacific cost of revenues included $3.7 million of depreciation expense and $194,000 of non-cash rent expense associated with the value attributed to warrants issued to our landlord in connection with a lease amendment for our Hong Kong IBX center for the year ended December 31, 2004. Asia-Pacific cost of revenues included $4.4 million of depreciation expense for the year ended December 31, 2003. Excluding depreciation and non-cash rent expense, Asia-Pacific cost of revenues decreased period over period to $14.7 million for the year ended December 31, 2004 from $16.2 million for the year ended December 31, 2003, a 9% decrease. This decrease is primarily the result of (i) a decrease in bandwidth costs in Singapore associated with a corresponding decrease in low-margin bandwidth revenue in this location of approximately $2.4 million, (ii) a decrease in operating costs in Singapore as a result of the asset sale of one of our two IBX centers in Singapore that occurred during the fourth quarter of 2003 of $804,000 and (iii) the renegotiation and reduction of our Hong Kong and Tokyo lease costs, resulting in rent savings of approximately $538,000. These decreases are partially offset by some cost increases in line with increasing customer installations and revenues attributed to our customer growth in this region, including increasing utility costs in our Asia-Pacific IBX centers of $649,000. Our Asia-Pacific costs of revenues are generated in Hong Kong, Singapore, Sydney and Tokyo. 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 center has a greater number of employees than any of our other IBX centers, and therefore, a greater labor cost relative to our other IBX centers in the United States or other Asia-Pacific locations.

Sales and Marketing. Sales and marketing expenses decreased to $18.6 million for the year ended December 31, 2004 from $19.4 million for the year ended December 31, 2003.

U.S. Sales and Marketing Expenses. U.S. sales and marketing expenses increased to $13.8 million for the year ended December 31, 2004 from $12.5 million for the year ended December 31, 2003. Included in U.S. sales and marketing expenses were $119,000 and $299,000, respectively, of stock-based compensation expense and amortization expense associated with an intangible asset in connection with our Santa Clara IBX center for the years ended December 31, 2004 and 2003. Excluding stock-based compensation and amortization expense, U.S. sales and marketing expenses increased to $13.7 million for the year ended December 31, 2004 as compared to $12.2 million for the year ended December 31, 2003, a 12% 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. This increase is primarily due to increased compensation costs of $1.1 million, primarily as a result of growth in our revenue bookings and an increase in the number of sales and marketing headcount.

Asia-Pacific Sales and Marketing Expenses. Asia-Pacific sales and marketing expenses decreased to $4.8 million for the year ended December 31, 2004 as compared to $6.9 million for the year ended December 31, 2003. Included in Asia-Pacific sales and marketing expenses were $1.8 million and $2.1 million, respectively, of amortization expense associated with several intangible assets associated with our Singapore operations for the years ended December 31, 2004 and 2003. Excluding amortization expense, Asia-Pacific sales and marketing expenses decreased to $3.0 million during the year ended December 31, 2004 down from $4.8 million in the prior year, primarily as a result of headcount and overall compensation cost reductions in the Singapore region last year of approximately 14% and a decrease in overall discretionary spending due in large part to synergistic savings as a result of the combination that closed on December 31, 2002. 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 Hong Kong, Singapore, Sydney and Tokyo.

General and Administrative. General and administrative expenses decreased to $32.5 million for the year ended December 31, 2004 from $34.3 million for the year ended December 31, 2003.

U.S. General and Administrative Expenses. U.S. general and administrative expenses decreased to $25.9 million for the year ended December 31, 2004 as compared to $28.3 million for the year ended December 31, 2003. Included in U.S. general and administrative expenses for the year ended December 31, 2004, were $1.8 million and $1.4 million of depreciation expense and stock-based compensation expense, respectively. Included in U.S. general and administrative expenses for the year ended December 31, 2003, were $5.3 million and $2.6 million of depreciation expense and stock-based compensation expense, respectively. Depreciation and stock-based compensation expense decreased period over period as certain headquarter-based assets became fully depreciated during the year, and certain stock-based compensation costs became fully amortized. Excluding depreciation and stock-based compensation expense, U.S. general and administrative expenses increased to $22.7 million for the year ended December 31, 2004, as compared to $20.4 million for the prior year, an 11% increase. This increase is primarily due to higher professional service fees and other legal-related costs and expenses of $1.8 million, including $733,000 of external costs attributed to our Sarbanes-Oxley compliance initiatives. We continue to incur additional costs related to our Sarbanes-Oxley compliance initiative and this initiative will continue to impose additional costs on Equinix as a public company, both in the form of outside professional service fees for auditors and other advisors, and internal costs related to various devoted teams throughout the organization. We also have higher overall compensation costs of $1.9 million related to annual salary merit

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increases and corporate bonus programs, as well as an increase in the number of new hires over the past year. In addition, during 2004, we incurred a net charge of $190,000 related to the liquidation of certain legacy subsidiaries in Europe and we do not expect this cost to recur (we initially recorded a charge of $512,000 in the third quarter, which was offset by a reduction in the charge of $322,000 in the fourth quarter as a result of a favorable settlement reached in December 2004). These increases in costs are partially offset by some savings related to the shutdown of the Pihana corporate office in Honolulu that was completed in June 2003, and the relocation of the corporate headquarter office from Mountain View to Foster City in March 2003 totaling $1.9 million. 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.

Asia-Pacific General and Administrative Expenses. Asia-Pacific general and administrative expenses increased to $6.6 million for the year ended December 31, 2004 as compared to $6.0 million for the year ended December 31, 2003. Included in Asia-Pacific general and administrative expenses were $366,000 and $497,000, respectively, of depreciation expense for the year ended December 31, 2004 and 2003. Excluding depreciation, Asia-Pacific general and administrative expenses increased to $6.2 million for the year ended December 31, 2004, as compared to $5.5 million for the prior year, a 13% increase. This increase is primarily related to an increase in professional service fees of $141,000 related to our Sarbanes-Oxley compliance initiative in Singapore and higher compensation costs of $450,000 as a result of annual merit increases and corporate bonus programs. Our Asia-Pacific general and administrative expenses 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 Hong Kong, Singapore, Sydney and Tokyo. 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 office locations in Hong Kong and Tokyo.

Restructuring Charges. During the year ended December 31, 2004, we recorded restructuring charges of $17.7 million. In light of the availability of fully built-out data centers in select markets at costs significantly below those costs we would incur in building out new space, we made the decision in December 2004 to exit leases for excess space adjacent to one of our New York metro area IBXs, as well as space on the floor above our original Los Angeles IBX. The restructuring charges consisted of (i) a $13.9 million charge representing the present value of our estimated future cash payments, net of any estimated subrental income and expense, through the remainder of these lease terms; and (ii) a write-off of property and equipment of $3.8 million, representing the write-off of all remaining property and equipment attributed to the excess space on the floor above our Los Angeles IBX. We entered into a two-year sublease agreement for the excess space in the New York metro area and are currently evaluating opportunities related to our excess space in Los Angeles. We expect that as a result of these restructuring charges, we will realize annual savings in cost of revenues commencing in 2005 of approximately $1.8 million. As of December 31, 2004, we had total accrued restructuring charges of $14.8 million recorded as liabilities on our balance sheet related to these excess lease spaces. For further detailed information on our restructuring charges, see Note 17 of our Notes to Consolidated Financial Statements in our financial statements found elsewhere in this prospectus supplement. We did not incur any restructuring charges during the year ended December 31, 2003.

Interest Income. Interest income increased to $1.3 million from $296,000 for the years ended December 31, 2004 and 2003, respectively. Interest income increased due to higher average cash, cash equivalent and short-term and long-term investment balances held in interest-bearing accounts during these periods, as well as to increased yields on those balances.

Interest Expense. Interest expense decreased to $11.5 million from $20.5 million for the years ended December 31, 2004 and 2003, respectively. The decrease in interest expense was primarily attributable to the reduction in the principal balance outstanding on our credit facility during 2003 and 2004. These interest expense

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savings were partially offset by additional non-cash interest expense associated with the $10.0 million 10% convertible secured notes issued on June 5, 2003 as a result of the Crosslink financing. However, during the quarter ended March 31, 2004, with the proceeds from the convertible debenture offering, we fully paid off the remaining credit facility and two other debt facilities, as well as fully redeemed the remaining 13% senior notes that were outstanding. In addition, in March 2004, the $10.0 million 10% convertible secured notes issued in connection with the Crosslink financing were converted to 2.5 million shares of our common stock. As a result of these various repayments, redemption and conversion of our older debt facilities, which have been replaced with our $86.3 million 2.5% convertible subordinated debentures, our interest expense commencing with the second quarter of 2004 was significantly reduced.

Loss on Debt Extinguishment and Conversion. In February 2004, with the proceeds from the convertible debenture offering, we fully paid off the remaining credit facility and two other debt facilities, as well as fully redeemed the remaining 13% senior notes that were outstanding at a premium of 106.5% through March 2004. In addition, in March 2004, the 10% $10.0 million convertible secured notes issued in connection with the Crosslink financing, which contained a beneficial conversion feature, were converted to 2.5 million shares of our common stock. As a result of these various repayments, redemption and conversion of our older debt facilities, we recorded a loss on debt extinguishment and conversion of $16.2 million, comprised primarily of the write-off of the various debt issuance costs and discounts associated with these various debt facilities totaling $13.7 million, as well as the premium paid to the holders of our 13% senior notes required to redeem these early and other cash transaction costs totaling $2.5 million. There was no such debt extinguishment or conversion activity 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. However, for the year ended December 31, 2004, we recorded $153,000 of income tax expense, primarily representing income taxes related to our international subsidiaries.

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%