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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

OR

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

For the transition period from to

Commission File Number 000-31293

EQUINIX, INC.

(Exact name of registrant as specified in its charter)

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

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

(Address of principal executive offices, including ZIP code)

(650) 598-6000

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

EQUINIX, INC.

Condensed Consolidated Balance Sheets

(in thousands)

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

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

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

Condensed Consolidated Statements of Operations

(in thousands, except per share data)

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

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

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

Condensed Consolidated Statements of Comprehensive Income (Loss)

(in thousands)

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

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

Condensed Consolidated Statements of Cash Flows

(in thousands)

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

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

See accompanying notes to condensed consolidated financial statements

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by Equinix, Inc. (Equinix or the Company) and reflect all adjustments, consisting only of normal recurring adjustments, which in the opinion of management are necessary to fairly state the financial position and the results of operations for the interim periods presented. The condensed consolidated balance sheet data at December 31, 2011 has been derived from audited consolidated financial statements at that date. The condensed consolidated financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (SEC), but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles in the United States of America. For further information, refer to the Consolidated Financial Statements and Notes thereto included in Equinix s Form 10-K as filed with the SEC on February 24, 2012. Results for the interim periods are not necessarily indicative of results for the entire fiscal year.

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

Consolidation

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

Reclassifications

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

Income Taxes

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

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

Discontinued Operations

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

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

Fair Value of Financial Instruments

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

Recent Accounting Pronouncements

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

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

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

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

2. Earnings Per Share

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

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

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EQUINIX, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Shares reserved for conversion of 2.50% convertible subordinated notes		2,232	863	2,232
Shares reserved for conversion of 3.00% convertible subordinated notes		2,945		2,945
Shares reserved for conversion of 4.75% convertible subordinated notes	4,433	4,433	4,433	4,433
Common stock related to employee equity awards				