

EQUINIX INC  
Form DEFM14A  
December 09, 2002  
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**SCHEDULE 14A INFORMATION**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

**EQUINIX, INC.**

(Name of Registrant As Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No Fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

Ordinary shares, par value S\$1.00 per share (the i-STT Ordinary Shares ) of i-STT Pte Ltd ( i-STT )  
Series A Redeemable Preferred Stock, par value \$0.001 per share (the Pihana Series A Preferred Stock ), of Pihana Pacific, Inc. ( Pihana )  
Series B Convertible Preferred Stock, par value \$0.001 per share, of Pihana (the Pihana Series B Preferred Stock )

(2) Aggregate number of securities to which transaction applies:

54,000,000 i-STT Ordinary Shares  
5,000,000 shares of Pihana Series A Preferred Stock  
80,189,964 shares of Pihana Series B Preferred Stock  
4,587,384 warrants to acquire shares of Pihana Series B Preferred Stock (the Pihana Warrants )

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

\$0.555 per i-STT Ordinary Share (a)  
\$0.001 per share of Series A Preferred Stock (b)  
\$0.001 per share of Series B Preferred Stock (c)  
\$5.580 per Pihana Warrant (d)

- (a) Calculated per Rule 0-11(c) under the Securities Exchange Act of 1934, as amended (the Exchange Act ), based on the par value per i-STT Ordinary Share (translated using the October 15, 2002 noon buying rate of the Federal Reserve Bank of New York of \$0.5548 Singapore Dollars per United States Dollar) because i-STT has an accumulated deficit.

(b)

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Calculated per Rule 0-11(c) under the Exchange Act, based on the par value per share of Series A Preferred Stock because Pihana has an accumulated deficit.

(c) Calculated per Rule 0-11(c) under the Exchange Act, based on the par value per share of Series B Preferred Stock because Pihana has an accumulated deficit.

(d) Represents the exercise price of each Pihana Warrant.

(4) Proposed maximum aggregate value of transaction:

\$2,997,000 for the i-STT Ordinary Shares  
\$5,000 for the Series A Preferred Stock  
\$80,190 for the Series B Preferred Stock  
\$25,597,602 for the Pihana Warrants  
\$28,679,792 for the transaction

(5) Total fee paid:

\$5,277 (e)

(e) Calculated as \$92.00 per \$1,000,000 of the proposed maximum aggregate value of the transaction.

x Fee paid previously with preliminary materials:

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**December 10, 2002**

TO THE STOCKHOLDERS OF EQUINIX, INC.

Dear Stockholder:

A special meeting of stockholders of Equinix, Inc. will be held at the offices of Willkie Farr & Gallagher located at 787 Seventh Avenue, New York, New York 10019 on December 30, 2002, beginning at 9:00 a.m. Eastern Time.

On October 2, 2002, we entered into agreements to consummate a series of related acquisition and financing transactions. Under the terms of these agreements, we intend to combine our business with two similar businesses through the acquisition of i-STT Pte Ltd and Pihana Pacific, Inc. Second, we intend to sell a minimum of \$30.0 million and up to \$40.0 million of convertible secured notes to investors, including STT Communications Ltd, to finance continuing operations of the combined companies and to reduce our outstanding debt. These notes will be convertible into shares of our common stock and preferred stock. Upon completion of these transactions, STT Communications, i-STT's sole stockholder, and the Pihana stockholders could together hold a majority of our stock. In addition, in the event STT Communications converts its notes and warrants to equity, it, together with the Pihana stockholders, will hold nearly 65% of our stock, which would essentially constitute a change of control.

Prior to these transactions, we had no relationship with STT Communications. Neither STT Communications nor Pihana were affiliates of Equinix or each other. Following these transactions, because of the large percentage of our stock that will be held by STT Communications, STT Communications will become an affiliate of Equinix and will have significant influence over matters requiring stockholder consent.

In connection with these transactions, we intend to amend our credit facility and to reduce our outstanding debt by exchanging a large portion of our outstanding 13% senior notes due 2007 for a combination of cash and shares of our common stock. Each of these transactions is more fully described in this proxy statement. In connection with the special meeting, you are being asked to vote in favor of the issuance of shares of our common stock and preferred stock in connection with these transactions.

In addition, we have been notified by the Nasdaq Qualification Panel that in order to qualify for listing on The Nasdaq National Market following the closing of the proposed transactions, our stock price must trade above \$5.00 per share. To bring the trading price of our common stock above \$5.00, we intend to effect a reverse stock split. Based on our stock price on December 6, 2002 of \$0.28 per share, in order to achieve the \$5.00 minimum share price, we would need to complete a reverse stock split such that for every 17.86 shares currently outstanding, there would be one share outstanding following such reverse stock split.

Our board of directors has approved these transactions, and recommends that you vote **FOR** each of the proposals described in this proxy statement.

It is important that your shares be represented and voted at the meeting. **WHETHER OR NOT YOU PLAN TO ATTEND OUR SPECIAL MEETING, PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.** Returning the proxy does **NOT** deprive you of your right to attend the special meeting. If you decide to attend the special meeting and wish to change your proxy vote, you may do so automatically by voting in person at the meeting.

On behalf of the board of directors, I would like to express our appreciation for your continued interest in the affairs of Equinix. We look forward to seeing you at the special meeting.

Sincerely,

Peter F. Van Camp  
*Chairman of the Board  
and Chief Executive Officer*

This proxy statement and the related proxy card was first mailed to our stockholders on or about December 10, 2002.

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**EQUINIX, INC.  
2450 Bayshore Parkway  
Mountain View, CA 94043**

**NOTICE OF SPECIAL MEETING OF STOCKHOLDERS  
To be held December 30, 2002**

A special meeting of stockholders of Equinix, Inc. will be held at the offices of Willkie Farr & Gallagher located at 787 Seventh Avenue, New York, New York 10019, on December 30, 2002, beginning at 9:00 a.m. Eastern Time for the following purposes:

1. To approve the issuance of shares of our common stock and preferred stock in connection with the combination of our business with the businesses of i-STT Pte Ltd and Pihana Pacific, Inc., the issuance of convertible secured notes in connection with a new debt financing pursuant to which we will raise a minimum of \$30.0 million and a maximum of \$40.0 million and the exchange of a significant portion of our senior notes for a combination of cash and shares of our common stock.
2. To adopt the agreement and plan of merger, dated as of October 17, 2002, by and between Eagle Oasis, Inc., our wholly-owned subsidiary, and us.

The foregoing items of business are more fully described in this proxy statement.

Only stockholders of record at the close of business on November 22, 2002 are entitled to notice of, and to vote at, the special meeting and at any adjournments or postponements thereof. A list of such stockholders will be available for inspection at our headquarters located at 2450 Bayshore Parkway, Mountain View, California 94043, during ordinary business hours for the ten-day period prior to the special meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

Peter F. Van Camp  
*Chairman of the Board  
and Chief Executive Officer*

Mountain View, California  
December 10, 2002

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**IMPORTANT**

**WHETHER OR NOT YOU PLAN TO ATTEND OUR SPECIAL MEETING, PLEASE COMPLETE, SIGN, DATE AND PROMPTLY RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE. YOU MAY REVOKE YOUR PROXY AT ANY TIME PRIOR TO THE SPECIAL MEETING. IF YOU DECIDE TO ATTEND OUR SPECIAL MEETING AND WISH TO CHANGE YOUR PROXY VOTE, YOU MAY DO SO AUTOMATICALLY BY VOTING IN PERSON AT THE MEETING.**

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**QUESTIONS AND ANSWERS ABOUT THE COMBINATION, THE FINANCING, THE SENIOR NOTE EXCHANGE, THE AMENDMENT TO THE CREDIT FACILITY AND THE CHARTER MERGER**

**Q: Why am I receiving this proxy statement?**

**A:** You are receiving this proxy statement in connection with a special meeting of our stockholders to approve transactions more fully described in this proxy statement.

**Q: When and where will the special meeting of Equinix stockholders be held?**

**A:** December 30, 2002 beginning at 9 a.m., local time, at the offices of Willkie Farr & Gallagher at 787 Seventh Avenue, New York, New York 10019.

**Q: What proposals am I being asked to vote for?**

**A:** On October 2, 2002, we entered into agreements to consummate a series of related acquisition and financing transactions that will result in our issuance of shares of our common stock and preferred stock (and instruments convertible or exercisable into shares of our common stock and preferred stock) that will represent approximately 77.5% of our capital stock as of the closing of those transactions. Under the listing rules of The Nasdaq National Market we are required to seek the approval of our stockholders when we propose to issue new shares of stock, or instruments convertible or exercisable into new shares of stock, in excess of 20% of our outstanding capital stock. The following is a brief description of the transactions:

First, we intend to combine our existing Internet exchange business with two similar businesses through the acquisition of the outstanding stock of i-STT Pte Ltd from STT Communications Ltd and a merger of one of our subsidiaries with Pihana Pacific, Inc. pursuant to the terms of a combination agreement that we entered into on October 2, 2002. We call this transaction the combination.

Second, we intend to sell a minimum of \$30.0 million and up to \$40.0 million of convertible secured notes to STT Communications and other investors to finance continuing operations and a reduction of our outstanding debt pursuant to the terms of a securities purchase agreement that we entered into on October 2, 2002. These notes will be convertible into shares of our common stock and preferred stock. We call this transaction the financing.

Finally, we intend to significantly reduce our outstanding debt by exchanging a large portion of our 13% senior notes due 2007, or our senior notes, for a combination of cash and shares of our common stock. We call this transaction the senior note exchange.

In Proposal 1, you are being asked to vote for the issuance of shares of our common stock and preferred stock in connection with the combination, the financing and the senior note exchange.

We do not have a sufficient number of authorized and unissued shares of preferred stock to complete the combination and financing. Therefore, we need to increase the number of authorized shares of our preferred stock. In addition, we need to increase our trading price by effecting a reverse stock split. The goal of the reverse stock split is to increase the trading price of our common stock on The Nasdaq National Market to a price in excess of \$5.00 for a sustained period of time. While the reverse stock split will reduce the number of shares of common stock you hold, it will not by itself change your relative percentage ownership of our common stock as compared to our other stockholders.

To accomplish the increase in authorized shares of preferred stock and the reverse stock split, Eagle Oasis, Inc., one of our wholly-owned subsidiaries, will merge with and into us. We call this transaction the charter merger.

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As a result of the charter merger, the certificate of incorporation of Eagle Oasis, Inc. will become our certificate of incorporation. The Eagle Oasis, Inc. certificate of incorporation that we assume in the charter merger will contain sufficient authorized shares of preferred stock and common stock to complete the combination, the financing and the senior note exchange and will effect the reverse stock split. The actual number of authorized shares and the reverse stock split ratio will be determined by our officers immediately prior to the closing based on the trading price of our stock and market conditions at the time of closing.

In Proposal 2, you are being asked to adopt the agreement and plan of merger, dated October 17, 2002, by and between us and Eagle Oasis, Inc., our wholly-owned subsidiary, that will implement the charter merger.

**Q: What will happen if all of the proposals are not approved at the special meeting?**

**A:** If our stockholders do not approve the issuance of our stock in connection with the combination, the financing and the senior note exchange, we will most likely file for protection under federal bankruptcy law. See Risk Factors beginning on page 24.

**Q: What do I need to do now?**

**A:** After carefully reading and considering the information contained in this proxy statement, please complete and sign your proxy and return it in the enclosed return envelope as soon as possible so that your shares may be represented and voted at our special meeting. If you sign and send in your proxy and do not indicate how you want to vote, we will count your proxy as a vote for the proposal to approve the issuance of shares of our common stock and preferred stock in connection with the combination, the financing and the senior note exchange and the adoption of the merger agreement. See the enclosed proxy card for instructions on how to vote by telephone and by Internet.

**Q: Do I have appraisal rights if I oppose the issuance of common stock and preferred stock in connection with the combination, financing and senior note exchange and the charter merger?**

**A:** No. None of our stockholders will have appraisal rights in connection with the transactions described in Proposals 1 and 2.

**Q: When do you expect these transactions to be completed?**

**A:** The transactions are anticipated to close by the end of 2002, but may close in 2003 depending on how quickly we can complete the SEC review and complete the senior note exchange. Prior to the closing, we will work closely together with i-STT and Pihana to plan the smooth integration of the three organizations.

**Q: If my shares are held in street name by my broker, will my broker vote my shares for me?**

**A:** Shares held in street name are shares held in brokerage accounts or held by other nominees on a stockholder's behalf. Your broker or nominee will vote your shares only if you provide instructions on how to vote. You should follow the directions provided by your broker or nominee regarding how to instruct your broker to vote your shares. If you do not instruct your broker or nominee, your shares will not be voted.

**Q: Can I change my vote after I have mailed my signed proxy?**

**A:** Yes. You can change your vote at any time before your proxy is voted at our special meeting. If you hold your shares in your own name, you can do this in one of three ways. First, you can send a written notice stating that you would like to revoke your proxy. Second, you can complete and submit a new proxy. If you choose either of these two methods, you must submit your notice of revocation or your new proxy before the

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meeting to the address set forth in the answer to the last question below. Third, stockholders can attend the meeting and vote in person. If your shares are held in street name, you should follow the directions provided by your broker or nominee regarding how to change your vote.

**Q: What do I do if I have questions?**

**A:** If you have any questions about the issuance of common stock in connection with the combination, the financing, the senior note exchange or the charter merger or if you need additional copies of this proxy statement and you are one of our stockholders, you should contact:

Georgeson Shareholder Communications, Inc.  
(866) 870-4339

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**SUMMARY**

*This summary, together with the question and answer section, highlights some of the information discussed in greater detail elsewhere in this proxy and may not contain all of the information that is important to you. For a more complete understanding of the combination, the financing, the senior note exchange, the charter merger and the other related transactions described in this proxy statement, you should carefully read this entire document and the documents referred to in this proxy statement. See *Where You Can Find Additional Information* beginning on page 146.*

**The Companies**

**Equinix, Inc.**

We design, build and operate neutral Internet Business Exchange hubs, or IBX hubs, where Internet businesses place their equipment and their network facilities in order to interconnect with each other to improve Internet performance. Our carrier neutral IBX hubs and Internet exchange services enable network service providers, enterprises, content providers, managed service providers and other Internet infrastructure companies to directly interconnect with each other for increased performance and cost advantages.

We currently have seven IBX hubs, consisting of more than 810,000 square feet, which operate in key U.S. Internet intersection points Washington, D.C., New York, Dallas, Chicago, Los Angeles and Silicon Valley areas. In addition, we have strategic partnerships established in Europe and Asia to serve customer needs in those areas.

Our headquarters are located at 2450 Bayshore Parkway, Mountain View, California 94043. Our phone number is (650) 316-6000.

**i-STT Pte Ltd**

i-STT offers the following services, which are organized under three general business divisions, to its customers:

*WEBCentre.* i-STT's WEBCentre division maintains carrier neutral data center facilities in Singapore and Bangkok which house customers' critical computer systems, networks, and telecommunications equipment. This division also provides system and network management services to ensure the optimal performance and continuous availability of customers' computer systems. These services are very similar to those offered by Equinix and Pihana in their facilities.

*Connectivity Services.* i-STT's connectivity services division provides connectivity services that enable multiple telecommunications carriers and Internet service providers to interconnect with each other at a single location and provide direct Internet connectivity to enterprise customers within the data center.

*Enterprise Messaging.* i-STT's enterprise messaging division enables enterprises to outsource the operations and management of their email systems to i-STT. These email systems are based on the Lotus Notes and Microsoft Exchange platforms.

i-STT is a wholly-owned subsidiary of STT Communications. STT Communications is a Singapore telecommunications and information technologies company. Through its subsidiaries, STT Communications provides fixed and mobile telecommunications, data, internet services, telephone equipment distribution, managed hosting, teleport services, broadband cable and video, and e-business software development services.

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STT Communications is a majority-owned subsidiary of Singapore Technologies Pte Ltd, a Singapore based conglomerate. Singapore Technologies, in turn, is a wholly-owned subsidiary of Temasek Holdings (Private) Limited, an investment holding company wholly-owned by the government of Singapore.

i-STT has two operating units, one in Singapore and the other in Bangkok, and its headquarters are located at Blk 20 Ayer Rajah Crescent, #05-05/08 Ayer Rajah Industrial Estate, Singapore 139964. i-STT's phone number is (65) 6723-8888.

### **Pihana Pacific, Inc.**

Pihana operates a business similar to ours, along the Pacific rim. Pihana designs and builds carrier neutral data centers to house critical Internet systems for Internet service providers, telecommunications carriers, content service providers, and enterprise customers. Pihana has deployed an Internet exchange network to facilitate high performance routing of Internet traffic and provides an integrated suite of services, including enterprise system management, storage, colocation and disaster recovery services.

Pihana's regional footprint includes seven data center facilities in Los Angeles, California, Singapore, Tokyo, Japan, Seoul, Korea, Sydney, Australia, Hong Kong and Honolulu, Hawaii. Pihana has its regional headquarters in Hong Kong.

Pihana is privately held and is not controlled by any single person or group. Pihana's significant investors include, among others, affiliates of Goldman Sachs, UBS Capital, Morgan Stanley Dean Witter Private Equity and Columbia Capital.

The combination agreement requires Pihana to dispose of its Seoul, Korea data center subsidiary and enter into arrangements to terminate or amend its office lease in Singapore, its office lease in Honolulu, Hawaii and part of its data center lease in Los Angeles, California.

Pihana's headquarters are located at 1100 Alakea Street, Suite 3000, Honolulu, Hawaii 96813. Pihana's telephone number is (808) 528-7500.

### **The Special Meeting**

The special meeting will be held on Monday, December 30, 2002, beginning at 9 a.m., local time, at the offices of Willkie Farr & Gallagher located at 787 Seventh Avenue, New York, New York 10019.

### **Record Date**

The record date for determining the holders of shares of our outstanding common stock entitled to vote at the special meeting is the close of business on November 22, 2002. On the record date, 98,892,711 shares of our common stock were issued and outstanding.

## **Proposal 1**

### **The Issuance of Shares in Connection with the Combination, the Financing and the Senior Note Exchange**

#### **The Combination**

The combination is our acquisition of the businesses of i-STT and Pihana for cash and shares of our common stock and preferred stock as described below. See "The Combination" beginning on page 55.

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### *Acquisition of Pihana*

We will acquire Pihana through a merger of one of our indirect wholly-owned subsidiaries with Pihana. As consideration for the merger, we expect to pay \$10,000 and issue to the holders of Pihana's preferred stock, shares of our common stock representing approximately 23.2% of our capitalization as of the closing of the combination. See *The Combination The Pihana Merger* beginning on page 55.

### *Acquisition of i-STT*

One of our indirect wholly-owned subsidiaries will purchase all of i-STT's issued and outstanding stock from STT Communications. In consideration for the i-STT acquisition, we expect to pay \$10,000 and issue to STT Communications shares of our common stock and Series A preferred stock representing approximately 28.3% of our capitalization as of the closing of the combination. See *The Combination The i-STT Stock Purchase* beginning on page 58.

### *Adjustments to Consideration*

The number of shares of our common stock and preferred stock to be issued to STT Communications and Pihana's preferred stockholders is subject to adjustment based on our and i-STT's working capital balance and the amount of cash Pihana has as of the opening of business, without giving effect to the combination, on the day of the closing of the combination. See *The Combination The Pihana Merger Determination of the Pihana Merger Consideration* beginning on page 55 and *The Combination The i-STT Stock Purchase Determination of the i-STT Stock Purchase Consideration* beginning on page 58.

### *Closing of the Combination, the Financing and the Senior Note Exchange*

Unless otherwise noted, references in this proxy statement to the closing shall refer to the closing of the combination, the financing and the senior note exchange. The closing of the financing is conditioned upon the closing of the combination. The closing of the combination and the financing are conditioned upon the closing of the senior note exchange. We intend to close the combination, the financing and the senior note exchange immediately following our special meeting. We are targeting the closing to occur on December 31, 2002. See *The Combination* beginning on page 55, *The Financing* beginning on page 78 and *The Senior Note Exchange* beginning on page 82.

## **The Financing**

In order to provide cash for our operations and to retire and restructure a portion of our outstanding debt, we will raise additional capital at the closing of the financing. At the closing of the financing, we will sell a minimum of \$30.0 million and a maximum of \$40.0 million of convertible secured notes. The convertible secured notes will be convertible into shares of our common stock and preferred stock at a price of approximately \$0.34 per share, which represents a 10% premium over the 30 trading day average closing price of our common stock ending five days prior to signing the combination agreement. Each convertible secured note issued to STT Communications will be convertible into shares of our Series A preferred stock or shares of our non-voting Series A-1 preferred stock and will accrue interest at the rate of 14% per annum. All convertible secured notes issued to other investors will be convertible into shares of our common stock and accrue interest at the rate of 10% per annum. All interest on the convertible secured notes will be paid in the form of additional notes of the same series. All of the convertible secured notes will mature in November 2007. Due to the size of the investment by STT Communications and the concurrent negotiation of our acquisition of i-STT, the notes and warrants to be issued to STT Communications have preferential terms in comparison with notes and warrants to be issued to other investors.

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Until the second anniversary of the closing, unless terminated earlier as described in this proxy statement, STT Communications will be subject to restrictions on the amount of our voting securities that it may acquire upon conversion of notes or warrants. Under the securities purchase agreement, STT Communications may not convert its convertible secured notes or the warrants received in connection with the purchase of such notes into shares of our Series A preferred stock or common stock, but instead must convert or exercise into shares of our non-voting Series A-1 preferred stock, if:

as a result of such conversion, STT Communications and its affiliates would hold more than 40% of our outstanding voting stock; or

STT Communications has not complied with requirements of the Hart-Scott-Rodino Antitrust Improvements Act, or HSR Act, with respect to a conversion that would cause it to hold voting stock valued in excess of \$50.0 million.

The convertible secured notes issued to STT Communications will be secured by a first priority lien on all of i-STT's assets and the assets of Pihana's Singapore subsidiary. All of the convertible secured notes will be secured by a second priority lien on substantially all of the remaining assets.

As additional consideration for the convertible secured notes, we will issue to each purchaser warrants for shares of our common and preferred stock. Warrants issued to STT Communications will be exercisable for shares of our Series A preferred stock or shares of our non-voting Series A-1 preferred stock depending on whether STT Communications would exceed the 40% voting stock threshold described above. All other warrants will be exercisable for shares of our common stock. Each warrant will initially be exercisable for \$0.01 per share.

The material terms of the Series A preferred stock and the Series A-1 preferred stock are as follows:

*Liquidation:* In the event of our liquidation, dissolution or winding-up, our assets will be distributed pro rata to Series A preferred stock, Series A-1 preferred stock and common stock on an as-converted to common stock basis.

*Redemption:* The Series A preferred stock and the Series A-1 preferred stock are not redeemable at the option of the holder. After seven years, we will have the right, but not the obligation, to repurchase the Series A preferred stock and the Series A-1 preferred stock at the then current fair market value.

*Conversion:* The Series A preferred stock and the Series A-1 preferred stock will initially be convertible into one share of common stock (subject to the anti-dilution adjustments described below). The Series A preferred stock will be convertible at any time at the option of the holder. The Series A-1 preferred stock may only be converted to Series A preferred stock or common stock under specified conditions. See "Governance of the Combined Company" beginning on page 89.

*Automatic Conversion:* Subject to the conversion restrictions on the Series A-1 preferred stock as described above, all shares of Series A-1 preferred stock and all but 100 shares of Series A preferred stock will automatically convert into common stock upon our achieving four consecutive quarters of profitability.

*Antidilution Adjustments:* There will be proportional adjustments for stock splits and stock dividends and similar events.

*Voting Rights:* Except as required by Delaware law, the Series A preferred stock will vote with the common stock on an as-converted to common stock basis. Except as otherwise provided by Delaware law, the Series A-1 preferred stock will be non-voting.

*Series A Board Seats:* The holders of Series A preferred stock will have the right to elect three directors until the earlier of (i) there are no longer 100 shares of Series A preferred stock outstanding or (ii) the second anniversary of the closing.

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The closing of the financing is conditioned upon the closing of the combination. See The Financing beginning on page 78.

**The Senior Note Exchange**

As a condition to closing the combination and financing, we are required to substantially reduce the outstanding amount of our senior notes so that no more than \$22.3 million is outstanding under the notes. This condition requires us to retire at least \$124.9 million of our outstanding senior notes unless two of the three combining companies agree to waive the condition. Prior to signing the combination agreement, we received offers to exchange outstanding senior notes from the holders of \$101.2 million of our senior notes, leaving more than \$23.7 million additional senior notes that we are required to exchange in the senior note exchange in order to close the combination and the financing. In connection with the combination and financing, we have made an offer to exchange cash and shares of our common stock for all of our outstanding senior notes. Holders of our senior notes will receive an amount of cash and shares of our common stock based on the aggregate principal amounts of senior notes exchanged as described in the following tables. The amount of cash and the number of shares exchanged for each senior note will vary depending on the aggregate amount of senior notes exchanged, the amount of convertible secured notes issued in connection with the financing and the number of shares issued in connection with the combination. The tables below describe the amount we will pay for every \$1.00 of principal of senior notes exchanged and the aggregate consideration that will be given for the senior notes.

**Table 1 Consideration per \$1.00 principal amount of senior notes exchanged**

Total Principal Amount Exchanged (\$ in millions)					
Equal to or greater than:	but less than:	Cash Consideration	Maximum Stock Consideration**	Maximum Value of Stock Consideration***	Maximum Total Consideration per \$1.00 Senior Note Exchanged
\$115.0*	\$125.0	\$0.13	.469	\$0.13	\$0.26
\$125.0	\$132.5	\$0.14	.383	\$0.11	\$0.25
\$132.5	\$140.0	\$0.15	.317	\$0.09	\$0.24
\$140.0	\$147.2	\$0.16	.261	\$0.07	\$0.23
\$147.2	NA	\$0.17	.212	\$0.06	\$0.23

**Table 2 Aggregate consideration for senior notes exchanged**

Total Principal Amount Exchanged (\$ in millions)					
Equal to or greater than:	but less than:	Maximum Aggregate Cash Consideration (\$ in millions)	Maximum Aggregate Stock Consideration (shares in millions)**	Aggregate Value of Stock Consideration (\$ in millions)***	Maximum Total Aggregate Consideration (\$ in millions)
\$115.0*	\$125.0	\$16.3	58.6	\$16.4	\$32.7
\$125.0	\$132.5	\$18.6	50.7	\$14.2	\$32.8
\$132.5	\$140.0	\$21.0	44.4	\$12.4	\$33.4
\$140.0	\$147.2	\$23.6	38.4	\$10.8	\$34.4
\$147.2	NA	\$25.0	31.2	\$8.7	\$33.7

\* We have assumed a minimum of \$115.0 million of senior notes are exchanged. In the event that less than \$115.0 million of senior notes are exchanged and the senior note exchange is consummated, the cash consideration paid per \$1.00 of principal amount of senior notes exchanged and the aggregate shares issued shall equal the amounts set forth for \$115.0 million of senior notes exchanged.



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\*\* Actual numbers may decrease depending upon total number of shares issued in the combination and the financing and the principal amount of senior notes exchanged.

\*\*\* Stock value based on the closing price of our common stock on The Nasdaq National Market on December 6, 2002 of \$0.28.

We have commenced an exchange offer for all of our outstanding senior notes, and the holders of the senior notes currently have until December 24, 2002 to tender their senior notes to us in exchange for the consideration described above. The expiration of the exchange offer may be extended at our option and the closing of the senior note exchange is conditioned upon our stockholders approving Proposal 1 to authorize the issuance of the shares in the senior note exchange. See *The Senior Note Exchange* beginning on page 82.

**Post-Closing Capitalization**

The closing of the combination, the financing and the senior note exchange will significantly change our ownership structure. The table below indicates the relative ownership percentage of the combined company that will be owned by our existing stockholders, the holders of our senior notes who exchange their senior notes, STT Communications and the former stockholders of Pihana. These percentages are subject to adjustment at the closing of the combination based on closing conditions in the transaction documents and the actual amount of senior notes exchanged. See *The Combination* beginning on page 55.

Stockholders	Approximate % of our Capital Stock		Approximate % of our Voting Stock Following the Financing**
	Following the closing of the Combination	Following the Financing**	
Existing stockholders*	30.7%	22.5%	25.7%
Senior noteholders participating in the exchange	17.8%	13.1%	14.9%
STT Communications	28.3%	47.4%	40.0%
Former Pihana preferred stockholders	23.2%	17.0%	19.4%

\* Our existing stockholders' capital stock is calculated based on the total number of shares of our common stock outstanding, plus all shares of our common stock issuable upon the exercise of our outstanding stock options and warrants with an exercise price less than \$0.306 per share (as adjusted for the assumed cashless exercise of those options and warrants).

\*\* The percentages in this column assume we issue \$30.0 million of convertible secured notes and related warrants in the financing to STT Communications, and the subsequent conversion of all notes and the exercise of all warrants issued to STT Communications into capital stock, but does not include shares of our stock issuable upon exercise of the change in control warrants and cash trigger warrants described in this proxy statement. For two years following the closing, STT Communications has agreed to convert its convertible secured notes and warrants into shares of our non-voting preferred stock if conversion of the notes and warrants would cause STT Communications to hold more than 40% of our outstanding voting stock. This restriction will expire before the second anniversary of the closing if enumerated events occur. See *Governance of the Combined Company* beginning on page 89.

Unless otherwise noted, references in this proxy statement to the combined company's capitalization are based on the assumptions and methodologies contained in the foregoing table.

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### **Governance of the Combined Company**

*Nomination of Directors.* Following the closing, our board of directors will consist of nine members who will be nominated for two years following the closing, as follows:

Three members of our pre-combination board of directors will remain on the board following the combination. Any vacancies among these directors will be filled based on the nomination of the two directors who remain following the creation of that vacancy. One of these directors must at all times qualify as an independent director under the rules of The Nasdaq National Market. We call these directors the Equinix directors.

Three members of our board of directors will be individuals nominated by STT Communications. We call these directors the STT Communications directors.

One member of our board of directors will be an individual nominated by the former preferred stockholders of Pihana.

Two members of our board of directors will be individuals nominated by our nominating committee who qualify as independent directors under the rules of The Nasdaq National Market.

After the two year period expires, all directors will be elected by a plurality of votes cast at a meeting of our stockholders.

To the extent additional independent directors must be nominated to our board under the rules of The Nasdaq National Market, STT Communications and the Pihana stockholders have each agreed to nominate one director who qualifies as an independent director under those rules.

*Board Committees.* For two years after the closing, all committees will consist of at least one of the Equinix directors and one STT Communications director. In no event will any committee contain more STT Communications directors than our directors. One of the STT Communications directors will serve as the chairman of our board of directors and chairman of our Compensation Committee.

*Restrictions on Conversion.* As described above, for two years following the closing, STT Communications has agreed to convert its convertible secured notes and warrants into shares of our non-voting preferred stock if conversion of the notes and warrants would cause STT Communications to hold more than 40% of our outstanding voting stock. This restriction will expire before the second anniversary of the closing if enumerated events occur, including a material breach by us of our obligations under our material agreements with STT Communications, if a third party makes a tender offer for our shares, if STT Communications makes a tender offer with specified criteria or if STT makes additional cash investments in our shares. After two years, STT Communications will be free to convert its notes and warrants into shares of our common stock and Series A preferred stock without limitation.

*Officers.* Following the combination, our current management team will continue to serve in their current positions. Prior to closing, we will mutually agree with STT Communications on an individual to run our newly acquired operations in Asia.

### **Risks Related to the Combination, the Financing and the Senior Note Exchange**

The combination, the financing and the senior note exchange involve a variety of significant risks. You should carefully consider the factors discussed in the section entitled "Risk Factors" beginning on page 24.

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### **Votes Required**

Proposal 1, relating to approval of the issuance of our stock in connection with the combination, the financing, and the senior note exchange, must be approved by a majority of the votes cast at the special meeting by holders of our common stock.

Proposal 2, relating to the adoption of the merger agreement, must be approved by the holders of at least a majority of our issued and outstanding shares of common stock.

Each share of our common stock is entitled to one vote.

### **Amendment to Our Credit Facility**

As a condition to the combination, the financing and the senior note exchange, we are required to amend the terms of our credit facility. As part of this amendment we will pay down approximately \$7.5 million of the outstanding principal and eliminate a number of the restrictive financial covenants under our credit facility, including those related to our achieving minimum quarterly revenue and earnings before interest, taxes, depreciation and amortization, or EBITDA results. See *The Credit Facility* beginning on page 86.

To provide a mechanism to allow STT Communications and other purchasers of the convertible secured notes to ensure our compliance with liquidity and payment covenants under our credit facility, at the closing, we will issue cash trigger warrants to STT Communications and other investors. The holders of the cash trigger warrants will have the right, but not the obligation, to purchase shares of our common stock or, in the case of STT Communications, shares of our preferred stock. The cash trigger warrants will become exercisable only upon a default of our minimum cash covenant under our credit facility or our failure to make principal or interest payments on amounts outstanding under our credit facility when due. The maximum value of shares that may be purchased under the cash trigger warrants is \$30.0 million. The maximum value of shares that may be purchased upon any one exercise of the cash trigger warrants is equal to the sum of (a) any shortage of cash under our cash covenant or any missed principal or interest payment plus (b) \$5.0 million. See *The Financing Cash Trigger Warrants* beginning on page 80.

### **Conditions to Closing**

In addition to completing each of the transactions described above, there are a number of conditions to closing the combination and financing transactions, including:

Obtaining our stockholders' approval of Proposal 1 and Proposal 2.

Maintaining our listing on The Nasdaq National Market or The Nasdaq Small Cap Market. If at the closing of the combination our common stock is listed on The Nasdaq Small Cap Market, we must not have received any indication from Nasdaq that we would not be allowed to transfer back to The Nasdaq National Market after our stock trades above \$1.00 for 30 consecutive trading days.

We must have agreed with STT Communications on a management financial model and management structure for the combined companies.

Pihana must have reduced its operations in Los Angeles, Hawaii and Singapore and divested itself of its operations in Korea.

Each of us, STT Communications and Pihana must meet cash, non-current liabilities and working capital tests.

No events shall have occurred that would constitute a material adverse effect on us, i-STT or Pihana.

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We must have renegotiated our ground lease in San Jose.

We must obtain an independent valuation of all of our personal and real property assets for purposes of determining that we are not a real property holding company under U.S. law.

Documents effecting the security interests of the convertible secured notes must be executed and delivered by us to the purchasers of our convertible secured notes.

Guarantees of the convertible secured notes by all of our subsidiaries must be executed and delivered by us to the purchasers of our convertible secured notes.

### **Recommendation of the Board of Directors; Our Reasons for the Combination, the Financing and the Senior Note Exchange**

Our board of directors, has voted FOR, and recommends that you vote FOR, the approval of Proposal 1. For a description of the reasons which our board considered in approving and recommending the combination, the financing and the senior note exchange, see Proposal 1 Issuance of Shares in connection with the Combination, the Financing and the Senior Note Exchange Our Reasons for the Combination, the Financing and the Senior Note Exchange beginning on page 46.

### **Opinion of Financial Advisor**

In connection with the combination, our board of directors received a written opinion from Salomon Smith Barney Inc. as to the fairness, from a financial point of view, to Equinix of the aggregate consideration to be paid by Equinix in the combination. The full text of Salomon Smith Barney's written opinion, dated October 2, 2002, is attached to this proxy statement as Annex B. We encourage you to read this opinion carefully in its entirety for a description of the assumptions made, procedures followed, matters considered and limitations on the review undertaken. **Salomon Smith Barney's opinion was provided in connection with the combination, does not address any related transaction and does not constitute a recommendation to you as to how you should vote or act on any matters relating to the combination or any related transactions.**

### **Proposal 2 Charter Merger**

In order to facilitate the combination, the financing and the senior note exchange described above, we need to accomplish the following:

*Increase in Authorized Shares.* We need to increase the number of authorized shares of our preferred stock to allow for the issuance of shares of stock in connection with the combination and the financing. The authorized number of shares of preferred stock will be increased from 10,000,000 shares to 100,000,000 shares.

*The Reverse Stock Split.* On November 25, 2002, the Nasdaq Qualifications Panel notified us that as a result of the combination, the financing and the senior note exchange, we will be required to submit an application to re-qualify for initial listing on The Nasdaq National Market. One of the conditions to qualifying for initial listing is that our stock price must trade at or above \$5.00 per share. For the last several months our common stock has traded substantially below \$5.00. To bring the trading price of our common stock above \$5.00, our board of directors has authorized a reverse stock split to reduce the number of shares of our common stock outstanding. As a result of the reverse stock split, shares of our common stock will be combined into a smaller number of shares of our common stock. While the reverse stock split will reduce the number of shares held by each of our stockholders, it will not change

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the percentage of our outstanding stock owned by each stockholder. Based on our stock price on December 6, 2002 of \$.28 per share, in order to achieve the \$5.00 minimum share price we would need to complete a reverse stock split such that for approximately every 17.86 shares currently outstanding there would be one share outstanding following such reverse stock split. We anticipate that the actual reverse stock split ratio will cause our stock price to exceed the \$5.00 minimum requirement. Shares issuable in the combination, the financing and the senior note exchange will be adjusted to reflect the reverse stock split.

The reverse stock split and the increase in our authorized shares will occur as a result of the charter merger. We could also accomplish the reverse stock split and an increase in the authorized shares through an amendment to our restated certificate of incorporation. Under the terms of our restated certificate of incorporation, an amendment requires the affirmative vote of 66 <sup>2</sup>/<sub>3</sub>% of our outstanding common stock. The charter merger, on the other hand, only requires the affirmative vote of a majority of our outstanding common stock. As we have disclosed throughout the proxy statement, if these transactions are not approved, we would file for bankruptcy protection and our existing stockholders' equity would be almost entirely eliminated. While we believe we could ultimately get the required 66 <sup>2</sup>/<sub>3</sub>% vote to approve an amendment, given the importance of getting the transaction closed as soon as possible, we decided the charter merger was in the best interests of the company and its stockholders and creditors.

In Proposal 2, you are being asked to vote for the adoption of the agreement and plan of merger, dated October 17, 2002, by and between us and Eagle Oasis, Inc., our wholly-owned subsidiary, that will implement the charter merger.

**Recommendation of the Board of Directors**

Our board of directors has voted FOR, and recommends that you vote FOR, the approval of Proposal 2.

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**Structure of Equinix, Inc.**

The following chart shows the structure of Equinix, Inc. and its subsidiaries prior to the combination, the financing, and the senior note exchange. The parenthetical information indicates the jurisdiction of incorporation for each entity.

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The following chart shows the structure of Equinix, Inc. and its subsidiaries following the combination, the financing and the senior note exchange. The parenthetical information indicates the jurisdiction of incorporation for each entity.

- \* i-STT owns 60% of i-STT Nation Ltd, the entity through which i-STT does business in Thailand. The other 40% is owned by Nation Media Group of Thailand. At the closing of the combination, Equinix Thailand Holdings, Inc. will acquire i-STT's 60% share of i-STT Nation Ltd.

**Table of Contents****EQUINIX, INC.****SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA**

You should read the following table in conjunction with our historical consolidated financial statements and related notes and our Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this proxy statement.

The consolidated statement of operations data for the fiscal years ended December 31, 2001, 2000 and 1999 and the consolidated balance sheet data as of December 31, 2001 and 2000 have been derived from our audited consolidated financial statements included elsewhere in this proxy statement. The consolidated statement of operations data for the period from June 22, 1998 (inception) to December 31, 1998 and the consolidated balance sheet data as of December 31, 1999 and 1998 are derived from our audited financial statements not included or incorporated by reference in this proxy statement.

The consolidated balance sheet data as of September 30, 2002 and the consolidated statements of operations data for the nine months ended September 30, 2002 and 2001 are based on our unaudited quarterly consolidated financial statements included in this proxy statement.

The information as of and for the nine month periods ended September 30, 2002 and 2001 is unaudited and has been prepared on the same basis as our annual consolidated financial statements. In the opinion of our management, this quarterly information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2002, or any future period.

	Nine Months Ended September 30,		Years Ended December 31,			Period from June 22, 1998 (inception) to December 31, 1998
	2002	2001	2001	2000	1999	
	(unaudited)					
<b>Statement of Operations Data:</b>						
<b>(in thousands, except per share amounts)</b>						
Revenues	\$ 58,385	\$ 45,948	\$ 63,414	\$ 13,016	\$ 37	\$
Costs and operating expenses:						
Cost of revenues (includes stock-based compensation of \$216, \$412, \$426, \$766, \$177 and none for the periods ended September 30, 2002 and 2001 and December 31, 2001, 2000, 1999, and 1998, respectively)	78,599	74,593	94,889	43,401	3,268	
Sales and marketing (includes stock-based compensation of \$802, \$2,344, \$2,830, \$6,318, \$1,631 and \$13 for the periods ended September 30, 2002 and 2001 and December 31, 2001, 2000, 1999, and 1998, respectively)	12,168	13,274	16,935	20,139	3,949	47
General and administrative (includes stock-based compensation of \$4,622, \$13,285, \$15,788, \$22,809, \$4,819 and \$151 for the periods ended September 30, 2002 and 2001 and December 31, 2001, 2000, 1999, and 1998, respectively)	22,735	47,013	58,286	56,585	12,603	902
Restructuring charges	28,960	48,565	48,565			
Total costs and operating expenses	142,462	183,445	218,675	120,125	19,820	949
Loss from operations	(84,077)	(137,497)	(155,261)	(107,109)	(19,783)	(949)
Interest income	961	9,477	10,656	16,430	2,138	150
Interest expense	(26,411)	(32,948)	(43,810)	(29,111)	(3,146)	(220)
Gain on debt extinguishment	27,188					
Net loss	\$ (82,339)	\$ (160,968)	\$ (188,415)	\$ (119,790)	\$ (20,791)	\$ (1,019)
Net loss per share:						
Basic and diluted	\$ (0.88)	\$ (2.07)	\$ (2.39)	\$ (3.48)	\$ (4.98)	\$ (1.48)
Weighted average shares	93,687	77,843	78,681	34,461	4,173	688





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	As of September 30,		As of December 31,			
	2002	2001	2001	2000	1999	1998
	(unaudited)					
<b>Balance Sheet Data: (in thousands)</b>						
Cash and cash equivalents and short-term investments	\$ 11,622	\$ 165,842	\$ 87,721	\$ 207,210	\$ 222,974	\$ 9,165
Restricted cash and short-term investments	1,517	27,875	28,044	36,855	38,609	
Working capital (deficit)	(95,931)	74,075	39,889	126,677	229,178	8,920
Property and equipment, net	386,699	327,278	325,226	315,380	28,444	482
Construction in progress		91,066	103,691	94,894	18,312	31
Total assets	428,318	648,739	575,054	683,485	319,946	10,001
Senior secured credit facility	100,000	150,000	105,000			
Senior notes	139,303	187,387	187,882	185,908	183,955	
Redeemable convertible preferred stock					97,227	10,436
Total stockholders' equity (deficit)	147,866	227,725	203,521	375,116	8,472	(846)
<b>Other Financial Data: (in thousands)</b>						
Net cash used in operating activities	(29,741)	(52,057)	(68,854)	(68,073)	(9,908)	(796)
Net cash used in investing activities	(6,507)	(191,812)	(153,014)	(302,158)	(86,270)	(5,265)
Net cash provided by (used in) financing activities	(13,700)	155,134	107,799	339,847	295,178	10,226

**Table of Contents****EQUINIX, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS  
SELECTED UNAUDITED QUARTERLY FINANCIAL INFORMATION**

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

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

The following table presents selected unaudited quarterly information for the period ending September 30, 2002 and the fiscal years 2001 and 2000:

	<b>For the quarterly periods ending</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	
	(in thousands, except per share data)			
<b>2002:</b>				
Revenues	\$ 20,158	\$ 18,040	\$ 20,187	
Net loss	(13,694)	(24,557)	(44,088)	
Basic and diluted net loss per share	(0.16)	(0.25)	(0.44)	
	<b>For the quarterly periods ending</b>			
	<b>March 31</b>	<b>June 30</b>	<b>September 30</b>	<b>December 31</b>
	(in thousands, except per share data)			
<b>2001:</b>				
Revenues	\$ 12,613	\$ 16,157	\$ 17,178	\$ 17,466
Net loss	(41,537)	(37,857)	(81,574)	(27,447)
Basic and diluted net loss per share	(0.54)	(0.48)	(1.03)	(0.34)
<b>2000:</b>				
Revenues	\$ 136	\$ 892	\$ 3,933	\$ 8,055
Net loss	(18,009)	(26,811)	(32,085)	(42,885)
Basic and diluted net loss per share	(2.40)	(2.62)	(0.70)	(0.57)

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You should read the following table in conjunction with i-STT's historical consolidated financial statements and related notes and i-STT's Management's Discussion and Analysis of Financial Condition and Results of Operations included in this proxy statement, which have been prepared in accordance with Singapore GAAP. Singapore GAAP differs in certain respects from U.S. GAAP. For a discussion of material differences as applied to i-STT's financial statements, see Note 27 to i-STT's consolidated financial statements. All dollar amounts presented are in U.S. dollars.

The consolidated statements of operations data for the fiscal year ended December 31, 2001 and the period from January 3, 2000 (inception) to December 31, 2000 and the consolidated balance sheet data as of December 31, 2001 and 2000 have been derived from audited consolidated financial statements of i-STT included in this proxy statement.

The consolidated balance sheet data as of September 30, 2002 and the consolidated statements of operations data for the nine months ended September 30, 2002 and 2001 has been derived from unaudited interim consolidated financial statements of i-STT also included in this proxy statement/prospectus.

The information as of and for the nine months ended September 30, 2002 and 2001 are unaudited and have been prepared on the same basis as i-STT's annual consolidated financial statements. In the opinion of i-STT's management, this unaudited information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2002, or any future period.

	<b>Nine Months Ended September 30,</b>		<b>Year Ended December 31, 2001</b>	<b>Period from January 3, 2000 (inception) to December 31, 2000</b>
	<b>2002</b>	<b>2001</b>		
	(unaudited)			
<b>Statement of Operations Data: (in thousands)</b>				
Revenues	\$ 8,141	\$ 9,828	\$ 12,191	\$ 10,742
Loss from operations	(5,659)	(24,307)	(26,334)	(14,708)
Net loss	(5,601)	(24,839)	(26,959)	(14,427)
Net loss in accordance with US GAAP	(6,038)	(25,598)	(27,845)	(14,647)
	(unaudited)			
	<b>September 30,</b>		<b>December 31,</b>	
	<b>2002</b>	<b>2001</b>	<b>2001</b>	<b>2000</b>
	(unaudited)			
<b>Balance Sheet Data: (in thousands)</b>				
Cash and cash equivalents	\$ 1,575	\$ 1,031	\$ 2,670	\$ 5,053
Working capital (deficit)	(18,622)	(14,957)	(16,617)	(20,244)
Total assets	18,354	22,817	23,473	30,669
Shareholders' equity/(deficit)	(5,432)	2,455	174	(2,422)
Shareholders' equity/(deficit) in accordance with US GAAP	(5,487)	2,289	43	(1,760)

**Table of Contents****PIHANA PACIFIC, INC.****SUMMARY HISTORICAL CONSOLIDATED FINANCIAL DATA**

You should read the following table in conjunction with Pihana's historical consolidated financial statements and related notes and Pihana's Management's Discussion and Analysis of Financial Condition and Results of Operations included in this proxy statement.

The consolidated statement of operations data for the fiscal years ended December 31, 2001 and 2000 and the period from June 11, 1999 (inception) to December 31, 1999 and the consolidated balance sheet data as of December 31, 2001 and 2000 have been derived from audited consolidated financial statements of Pihana included in this proxy statement. The consolidated balance sheet data as of December 31, 1999 is derived from Pihana's unaudited consolidated financial statements not included in this proxy statement.

The consolidated balance sheet data as of September 30, 2002 and the consolidated statements of operations data for the nine months ended September 30, 2002 and 2001 has been derived from unaudited consolidated financial statements of Pihana also included in this proxy statement.

The information as of and for the nine months ended September 30, 2002 and 2001 are unaudited and have been prepared on the same basis as Pihana's annual consolidated financial statements. In the opinion of Pihana's management, this unaudited information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. The results of operations for the nine months ended September 30, 2002 are not necessarily indicative of the results that may be expected for the full year ended December 31, 2002, or any future period.

	Nine Months Ended September 30,		Years Ended December 31,		Period from June 11, 1999 (inception) to December 31, 1999
	2002	2001	2001	2000	
<b>(unaudited)</b>					
<b>Statement of Operations Data: (in thousands)</b>					
Revenues	\$ 3,123	\$ 342	\$ 1,018	\$ 13	\$
Loss from operations	(113,776)(1)	(38,105)	(50,888)	(18,521)	(1,033)
Net loss	(113,048)(1)	(32,324)	(43,851)	(15,953)	(989)
	<b>September 30,</b>		<b>December 31,</b>		
	<b>2002</b>	<b>2001</b>	<b>2001</b>	<b>2000</b>	<b>1999</b>
<b>(unaudited)</b>					
<b>Balance Sheet Data: (in thousands)</b>					
Cash and cash equivalents and short-term investments	\$ 38,465	\$ 85,102	\$ 67,742	\$ 191,626	\$ 1,194
Working capital	33,990	77,681	62,734	176,157	1,082
Total assets	72,786	200,508	186,093	233,531	2,137
Series A redeemable preferred stock	14,534	13,574	13,814	12,854	3,064
Series B redeemable preferred stock	216,222	216,222	216,222	213,592	
Series B redeemable preferred stock warrant	6,741	6,741	6,741	6,741	
Stockholders' deficit	(174,959)	(49,761)	(64,578)	(17,123)	(1,079)

(1) Includes non-recurring charge of \$77.0 million for the impairment of long-lived assets in the nine months ended September 30, 2002.

**Table of Contents****SUMMARY UNAUDITED CONDENSED COMBINED PRO FORMA DATA**

We are providing the following summary unaudited pro forma combined financial information to provide you with a better picture of what the results of operations and the financial position of Equinix's, Pihana's and i-STT's business might have looked like had the combination, the financing, the senior note exchange and the amendment to our credit facility occurred on January 1, 2001 for statement of operations purposes and on September 30, 2002 for balance sheet purposes. This information is provided for illustrative purposes only and is not necessarily indicative of what our results of operations or financial position would have been if those transactions actually occurred on the dates assumed. In addition, this information is not necessarily indicative of what our future consolidated operating results or consolidated financial position will be.

	<b>Nine Months Ended September 30, 2002</b>	<b>Year Ended December 31, 2001</b>
	<b>(in thousands, except per share amounts)</b>	
<b>Unaudited pro forma combined statement of operations data:</b>		
Revenues	\$ 69,545	\$ 75,581
Costs and operating expenses:		
Cost of revenues	99,763	135,062
Sales and marketing	19,679	30,805
General and administrative	31,622	77,473
Restructuring and other non-recurring charges	31,730	48,565
<b>Total costs and operating expenses</b>	<b>182,794</b>	<b>291,905</b>
Loss from operations	(113,249)	(216,324)
Interest income	2,470	16,094
Interest expense	(18,125)	(26,757)
Other	(1,035)	(1,008)
<b>Net loss</b>	<b>\$ (129,939)</b>	<b>\$ (227,995)</b>
Net loss per share:		
Basic and diluted	\$ (0.49)	\$ (0.92)
Weighted average shares	263,684	248,678
Net loss per share, as adjusted for anticipated reverse stock split:		
Basic and diluted	\$ (8.87)	\$ (16.50)
Weighted average shares	14,649	13,815
		<b>September 30, 2002</b>
		<b>(in thousands)</b>
<b>Unaudited pro forma combined balance sheet data:</b>		
Cash and cash equivalents and short-term investments		\$ 57,384
Restricted cash and short-term investments		1,564
Working capital		35,512
Property and equipment, net		398,335
Total assets		515,318
Senior secured credit facility		92,500
Senior notes		21,096

Stockholders equity

327,778

**Table of Contents****COMPARATIVE PER SHARE DATA**

The following table presents Equinix's, Pihana's and i-STT's unaudited historical per share and combined pro forma per share data after giving effect to the combination using the purchase method of accounting. The pro forma data does not purport to be indicative of the results of future operations or the results that would have occurred had the combination, the financing, the senior note exchange and the amendment to our credit facility been consummated at the beginning of the periods presented. The information set forth below should be read in conjunction with Equinix's, Pihana's and i-STT's historical consolidated financial statements and notes included elsewhere in this proxy statement. The unaudited pro forma combined and unaudited pro forma equivalent per share data combine Equinix's, Pihana's and i-STT's results of operations for the year ended December 31, 2001, Equinix's, Pihana's and i-STT's results of operations for the nine months ended September 30, 2002, with Equinix's, Pihana's and i-STT's financial position at September 30, 2002. No cash dividends have ever been declared or paid on our, Pihana's or i-STT's common stock.

**Comparative historical and pro forma per share data:**

	<b>Equinix</b>	
	<b>Nine Months Ended September 30, 2002</b>	<b>Year Ended December 31, 2001</b>
	_____	_____
Historical per common share data:		
Loss per share - basic and diluted	\$ (0.88)	\$ (2.39)
	_____	_____
Net book value per share(1)	\$ 1.50	\$ 2.54
	_____	_____
	<b>i-STT</b>	
	<b>Nine Months Ended September 30, 2002</b>	<b>Year Ended December 31, 2001</b>
	_____	_____
Historical per common share data(2):		
Loss per share - basic and diluted	\$ (0.11)	\$ (0.93)
	_____	_____
Net book value per share(1)	\$ (0.10)	\$ 0.00
	_____	_____
	<b>Pihana</b>	
	<b>Nine Months Ended September 30, 2002</b>	<b>Year Ended December 31, 2001</b>
	_____	_____
Historical per common share data:		
Loss per share - basic and diluted	\$ (0.94)	\$ (0.37)
	_____	_____
Net book value per share(1)	\$ 0.52	\$ 1.44
	_____	_____
	<b>Combination</b>	
	<b>Nine Months Ended September 30, 2002</b>	<b>Year Ended December 31, 2001</b>
	_____	_____
Pro forma combined per common share data:		
Loss per combined company's basic and diluted share	\$ (0.49)	\$ (0.92)



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Loss per equivalent i-STT basic and diluted share(3)	\$ (0.85)	\$ (1.60)
Loss per equivalent Pihana basic and diluted share(3)	\$ (0.31)	\$ (0.59)
Pro forma net book value per combined company's share(1)	\$ 1.24	
Pro forma net book value per equivalent i-STT share(3)	\$ 2.15	
Pro forma net book value per equivalent Pihana share (3)	\$ 0.79	
Pro forma combined per common share data, as adjusted for anticipated reverse stock split(4):		
Loss per combined company's basic and diluted share	\$ (8.87)	\$ (16.50)
Loss per equivalent i-STT basic and diluted share(3)	\$ (15.38)	\$ (28.62)
Loss per equivalent Pihana basic and diluted share(3)	\$ (5.67)	\$ (10.54)
Pro forma net book value per combined company's share(1)	\$ 22.38	
Pro forma net book value per equivalent i-STT share(3)	\$ 38.81	
Pro forma net book value per equivalent Pihana share(3)	\$ 14.29	

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- (1) Equinix's, Pihana's and i-STT's historical net book value per share of common stock is computed by dividing stockholders' equity at period end by the number of shares of common stock outstanding at the respective period end. The pro forma net book value per share of common stock of the combined company is computed by dividing the pro forma stockholders' equity by the pro forma number of shares of Equinix's common stock outstanding at the respective period end, assuming the combination, the financing, the senior note exchange and the amendment to our credit facility had occurred as of that date.
- (2) Prepared on an as converted basis for Pihana preferred stock.
- (3) The equivalent pro forma per share data is calculated by multiplying the respective pro forma share data by the pro forma exchange ratio for Pihana and i-STT, which is 0.6387 and 1.7343, respectively.
- (4) On November 25, 2002, the Nasdaq National Market notified the Company that as a result of the combination, financing and senior note exchange, the Company will be required to submit an application to re-qualify for initial listing on the Nasdaq National Market. One of the conditions to qualifying for initial listing is that the Company's stock price must trade at or above \$5.00 per share. For the last several months, the Company's common stock has traded substantially below \$5.00. To bring the trading price of the Company's common stock above \$5.00, the Company's board of directors has authorized a reverse stock split to reduce the number of shares of the Company's common stock outstanding. As a result of the reverse stock split, shares of the Company's common stock will be combined into a smaller number of shares of the Company's common stock. While the reverse stock split will reduce the number of shares held by each of the Company's stockholders, it will not change the percentage of the Company's common stock owned by each stockholder. Based on the Company's stock price on December 6, 2002 of \$0.28 per share, in order to achieve the \$5.00 minimum share price, the Company would need to complete a reverse stock split such that for every 17.86 shares currently outstanding, there would be one share outstanding following such reverse stock split. The Company anticipates that the actual reverse stock split ratio will cause the Company's stock price to exceed the \$5.00 minimum requirement. Shares issuable in the combination, the financing and the senior note exchange will be adjusted to reflect the reverse stock split. While the exact reverse stock split is not yet known at this time, at a minimum, it will be whatever is required to bring the Company into compliance with the minimum \$5.00 per share Nasdaq requirement. As a result, an 18 for 1 reverse stock split has been reflected based on the current trading levels of the Company's common stock.

**Table of Contents****RISK FACTORS**

*You should carefully consider the following risk factors before you decide whether to vote to approve the issuance of our shares in the combination, the financing and the senior note exchange, and whether to adopt the charter merger. You should also consider all of the other information included in this proxy statement and the additional information in our other reports on file with the SEC, including our annual report on Form 10-K for the year ended December 31, 2001.*

**Risks Related to the Combination, the Financing and the Senior Note Exchange****The combination, the financing and the senior note exchange will significantly dilute our existing stockholders' ownership interests.**

In connection with the combination, the financing and the senior note exchange, we will issue, or commit to issue, shares of our common stock and preferred stock (and instruments convertible or exercisable into shares of our common stock and preferred stock) representing approximately 77.5% of our capitalization as of the closing. As a result, our existing stockholders will own approximately 22.5% of the company following the closing of the combination, the financing and the senior note exchange. The issuance of stock in connection with these transactions will significantly dilute our existing stockholders' ownership interests.

The closing of the combination, the financing and the senior note exchange will significantly change our ownership structure. The table below indicates the relative ownership percentage of the combined company that will be owned by our existing stockholders, the holders of our senior notes who exchange their senior notes, STT Communications and the former stockholders of Pihana. These percentages are subject to adjustment at the closing of the combination based on closing conditions in the transaction documents and the actual amount of senior notes exchanged. See "The Combination" beginning on page 55.

Stockholders	Approximate % of our Capital Stock		Approximate % of our Voting Stock following the Financing**
	Following the closing of the Combination	Following the Financing **	
Existing stockholders*	30.7%	22.5%	25.7%
Senior noteholders participating in the exchange	17.8%	13.1%	14.9%
STT Communications	28.3%	47.4%	40.0%
Former Pihana preferred stockholders	23.2%	17.0%	19.4%

\* Our existing stockholders' capital stock is calculated based on the total number of shares of our common stock outstanding, plus all shares of our common stock issuable upon the exercise of our outstanding stock options and warrants with an exercise price less than \$0.306 per share (as adjusted for the assumed cashless exercise of those options and warrants).

\*\* The percentages in this column assume we issue \$30.0 million of convertible secured notes and related warrants in the financing to STT Communications, and the subsequent conversion of all notes and the exercise of all warrants issued to STT Communications into capital stock, but does not include shares of our stock issuable upon exercise of the change in control warrants and cash trigger warrants described in this proxy statement. For two years following the closing, STT Communications has agreed to convert its convertible secured notes and warrants into shares of our non-voting preferred stock if conversion of the notes and warrants would cause STT Communications to hold more than 40% of our outstanding voting stock. This restriction will expire before the second anniversary of the closing if enumerated events occur. See "Governance of the Combined Company" beginning on page 89.

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**Upon completion of the combination, STT Communications will hold a substantial portion of our stock and will have significant influence over matters requiring stockholder consent.**

Upon completion of the combination, STT Communications will beneficially own approximately 28.3% of our outstanding capital stock. Because of the diffuse ownership of our stock, STT Communications will have significant influence over matters requiring our stockholder approval following the combination. Following the expiration of restrictions on STT Communications preventing it from converting its convertible secured notes and warrants into voting stock if, as a result, STT Communications will own more than 40% of our voting stock, STT Communications will effectively control the company and the election of directors to our board of directors. Consequently, STT Communications will be able to exercise significant control over all matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, which could prevent or delay a third party from acquiring or merging with us.

**There are a number of conditions that must be satisfied prior to closing these transactions; if the proposed transactions are not consummated, we will most likely seek bankruptcy protection.**

The combination, the financing and the senior note exchange have a number of conditions that must be satisfied prior to closing these transactions. For instance, the combination is conditioned on the successful completion of the senior note exchange. This condition requires us to retire at least \$124.9 million of our senior notes in the senior note exchange. Prior to signing the combination agreement we only had offers to exchange outstanding senior notes from holders of \$101.2 million of our senior notes, requiring the voluntary participation by holders of a significant amount of senior notes. If more than \$22.3 million of our senior notes remain outstanding after the senior note exchange, we may be unable to complete the combination and financing. This condition may be waived by two of the three combining companies. However, even if this condition is successfully waived, the existing offers to tender \$101.2 million are conditioned on \$32.2 million or less of our senior notes remaining outstanding after the completion of the senior note exchange.

In addition, these transactions are conditioned upon our stockholders approving the proposals described in this proxy statement.

If these conditions are not met or waived and if the combination, the financing and the senior note exchange are not consummated, we will most likely seek bankruptcy protection. In the event of a bankruptcy, we anticipate our existing stockholders will be diluted to 0-5% of our capitalization.

**We may be required to pay significant liquidated damages if our stockholders do not approve the issuance of shares in connection with the combination, financing and senior note exchange or if our board of directors changes its recommendation to vote in favor of these transactions.**

If our stockholders do not approve the issuance of shares in connection with the combination, financing and senior note exchange, then STT Communications and Pihana may terminate the combination agreement and we will be required to pay up to \$750,000 to each of Pihana and STT Communications to cover their expenses. In addition, if we enter into an alternate transaction within twelve months of the termination, we would be obligated to pay to each of Pihana and STT Communications liquidated damages equal to the difference between \$1.3 million and the expenses already paid to such party.

If our board of directors changes its recommendation from one in favor of the combination to one against the combination or neutral with respect to the combination, does not recommend against a tender offer by a third party or if we enter into an alternate transaction, then we will be required to pay liquidated damages of \$1.3 million to each of Pihana and STT Communications if the combination agreement is terminated. Payment of these liquidated damages would represent a significant portion of our remaining cash and negatively affect our operating results.

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**Failure to complete the combination, financing and senior note exchange could negatively affect our operating results and our ability to enter into alternative transactions.**

If the combination, financing and senior note exchange are not completed for any reason, regardless of whether we seek bankruptcy protection, we will likely experience a number of adverse consequences, including the following:

the price of our common stock may decline to the extent that the current market price of our common stock reflects a market assumption that the combination will be completed;

an adverse reaction from investors and potential investors may reduce future financing opportunities;

our costs related to these transactions, including legal and accounting fees, must be paid even if these transactions are not completed; and

we may be obligated to pay the expenses of STT Communications or Pihana, up to \$750,000 each, if the combination agreement is terminated.

In addition, if the combination is terminated and we seek another merger or business combination, there can be no assurance that we will be able to find a suitable partner at an attractive price. In addition, while the combination agreement is in effect, we are prohibited from soliciting, initiating or encouraging or entering into extraordinary transactions, such as a merger, sale of assets or other business combination, with any third party. As a result of this prohibition, each company will be precluded from discussing potential transactions and, should the combination not occur, may lose an opportunity for a transaction with another potential partner at a favorable price.

**Our officers and two members of our management team who are directors may have different interests from yours that may influence them to recommend these transactions.**

Our officers and two members of our management team who are directors have interests in the combination and participate in arrangements that are different from, or are in addition to, those of our stockholders generally. Specifically, immediately following the closing, the combined company will issue options to employees of the combined company which will represent in the aggregate approximately 5 to 8% of the combined company's capitalization, including significant grants to our executives, who will comprise the majority of the combined company's management team. The options granted to these officers, and the two members of our board who are part of our management team will mitigate the dilutive effects of the combination, the financing and the senior note exchange on their current equity positions. Therefore, although we believe each such officer and director has complied with their fiduciary duties, they could be more likely to vote to recommend these transactions to our board of directors than if they were not anticipating such option grants. You should consider whether these interests may have influenced these officers to support or recommend these transactions.

**Equinix, i-STT and Pihana have limited operating histories and the market for each company's services is still in its early stages.**

We were founded in June 1998 and did not recognize any revenue until November 1999. i-STT was founded in January 2000 and did not recognize any revenue until May 2000. Pihana was founded in June 1999 and did not recognize any revenue until June 2000. These three companies' limited history makes evaluating their operations and the proposed scale of the combined business difficult. The combined company expects that it will encounter challenges and difficulties frequently experienced by early-stage companies in new and rapidly evolving markets, such as its ability to generate cash flow, hire, train and retain sufficient operational and technical talent, and implement its plan with minimal delays. The combined company may not successfully address any or all of these challenges and the failure to do so would seriously harm its business plan and operating results, and affect its ability to raise additional funds.

If the combined company is unable to meet these challenges and generate higher revenues while reducing costs, it may not be able to comply with the covenants in the credit facility. If the combined company breaches

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the credit facility, the banks could require repayment of all amounts previously drawn down and the combined company will not have sufficient cash reserves to repay such amounts.

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

We incurred losses of approximately \$188.4 million for 2001, i-STT incurred losses of approximately \$27.0 million for 2001 and Pihana incurred losses of approximately \$43.9 million for the same period. We incurred losses of approximately \$82.3 million for the nine months ended September 30, 2002, i-STT and Pihana incurred losses of \$5.6 million and \$113.0 million respectively, for the same period. In recent periods, Equinix, i-STT and Pihana have not generated cash from operations. Even if the combined company achieves profitability, given the competitive and evolving nature of the industry in which it operates, the combined company may not be able to sustain or increase profitability on a quarterly or annual basis.

The combination will delay, and may prevent, our profitability as a result of factors including:

- Pihana's data centers are generating significant operating losses and have lower gross margins;
- costs associated with integrating the three businesses; and
- fees and costs associated with completing these transactions, including professional fees.

As a result of these increased expenses, the combined company will need to increase revenues in order to reach profitability. If we are unable to sufficiently grow revenues while reducing costs, we may not be able to comply with the cash covenants and EBITDA ratios in the credit facility. If the combined company breaches the credit facility, the banks could require repayment of all amounts previously drawn down and the combined company will not have sufficient cash reserves to repay such amounts.

**The combined company expects its operating results to fluctuate.**

Equinix, i-STT and Pihana have each experienced fluctuations in their respective results of operations on a quarterly and annual basis. The fluctuation in their operating results may cause the market price of the combined company's common stock to decline. The combined company expects to experience significant fluctuations in our operating results in the foreseeable future due to a variety of factors, including:

- changes in general economic conditions and specific market conditions in the telecommunications and Internet industries;
- conditions related to international operations;
- growth of Internet use;
- customer insolvency;
- the ability of our customers to obtain financing or to fund their capital expenditures;
- demand for space and services at its IBX hubs;
- our pricing policies and the pricing policies of its competitors;
- the timing of customer installations and related payments;
- customer retention and satisfaction;
- the provision of customer discounts and credits;
- the mix of current and proposed products and services and the gross margins associated with its products and services;

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competition in the markets;

the timing and magnitude of capital expenditures and expenses related to the expansion of sales, marketing, operations and acquisitions, if any, of complementary businesses and assets;

the effects of terrorist activity and armed conflict, such as disruptions in general economic activity, changes in logistics and security arrangements, and reduced customer demand for our services;

the cost and availability of adequate public utilities, including power;

ability to obtain, transfer, or maintain licenses required by governmental entities with respect to the combined business; and

compliance with governmental regulation with which we have little experience.

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

If the combined company cannot generate higher revenues, while reducing costs by combining the businesses, it may not be able to comply with the covenants in the credit facility. If the combined company breaches the credit facility, the banks could require repayment of all amounts previously drawn down and the combined company will not have sufficient cash reserves to repay such amounts.

**If the combination, financing and senior note exchange do not close by December 31, 2002 the costs to the combined company will be increased, and there may be adverse tax consequences to the combined company.**

If the combination, financing and senior note exchange close after December 31, 2002, the transaction costs associated with these transactions will be increased to a level greater than planned. In addition, the cost benefits we currently plan for in the combination will not be fully realized. If the costs associated with these transactions significantly exceed expectations or if we are unable to recognize sufficient cost savings in the combination, the combined company may not be able to comply with the covenants in the credit facility. If the combined company breaches the credit facility, the banks could require repayment of all amounts previously drawn down and the combined company will not have sufficient cash reserves to repay such amounts.

In general, if we do not incur sufficient losses in the tax year in which the combination, the financing and the senior note exchange close, we will be forced to utilize available net operating loss carryforwards to offset the cancellation of indebtedness income generated by the senior note exchange. However, a number of states in which we are subject to tax, including California and New Jersey, have adopted legislation suspending the ability to utilize net operating loss carryforwards for state tax purposes. If the combination, financing and senior note exchange do not close on or prior to December 31, 2002, the likelihood that we will have sufficient losses incurred during the tax year in which such transactions do ultimately close to fully offset the cancellation of indebtedness income generated by the senior note exchange diminishes, and, therefore, the likelihood that we will have a material state tax liability as a result of the senior note exchange increases.

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**If we cannot successfully integrate Pihana's and i-STT's respective existing business operations, the combined company may not achieve the anticipated benefits of the combination.**

Integrating i-STT and Pihana into our business operations involves a number of risks, including:

- the difficulties and expenses in combining the operations, technology and systems of the three companies;
- the different geographic locations of the principal operations of us, i-STT and Pihana;
- the difficulties in integrating the companies' key revenue-generating services in a way that would be accepted in the market;
- the difficulties in the creation and maintenance of uniform standards, controls, procedures and policies;
- the diversion of management's attention from ongoing operations;
- the challenges in keeping and attracting customers; and
- the introduction of new or enhanced services.

If the combined company is to realize the anticipated benefits of the combination, our operations must be efficiently and effectively integrated with the operation of i-STT and Pihana. There can be no assurance that the integration will be successful or that the anticipated benefits of the combination will be realized. If the combined company cannot generate higher revenues, while reducing costs, it may not be able to comply with the covenants in the credit facility. If the combined company breaches the credit facility, the banks could require repayment of all amounts previously drawn down and the combined company will not have sufficient cash reserves to repay such amounts.

In addition, the i-STT and Pihana businesses have never operated as part of a publicly-held company and will now be subject to rigorous disclosure and reporting obligations. Applying these more rigorous requirements to i-STT and Pihana may significantly impact their reported financial results due to increased controls over their revenue and liabilities. Further, the process of combining the companies could create uncertainty among employees about their future roles with the combined company, thereby negatively affecting employee morale. This uncertainty may adversely affect the ability of the combined company to retain some of its key employees after the combination.

**If the combined company cannot effectively integrate and manage international operations, its revenues may not increase and its business and results of operations would be harmed.**

In 2001, our sales outside North America represented less than 1% of our revenues, i-STT's sales outside North America represented approximately 100% of its revenues and Pihana's sales outside North America represented approximately 34% of its revenues. We anticipate that, for the foreseeable future, approximately 20% of the combined company's revenues will be derived from sources outside North America. The combined company's management team will be comprised primarily of our executives, some of whom have had limited or no experience overseeing international operations.

The combined company may experience gains and losses resulting from fluctuations in foreign currency exchange rates, for which hedging activities may not adequately protect us. 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. The combined company's international operations are generally subject to a number of additional risks, including:

- costs of customizing IBX hubs for foreign countries;
- protectionist laws and business practices favoring local competition;
- greater difficulty or delay in accounts receivable collection;



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difficulties in staffing and managing foreign operations;

political and economic instability;

ability to obtain, transfer, or maintain licenses required by governmental entities with respect to the combined business; and

compliance with governmental regulation with which we have little experience.

To date, the majority of Equinix's and Pihana's revenues and costs have been denominated in U.S. dollars. However, the combined company expects that in the future an increasing portion of revenues and costs will be denominated in foreign currencies. Although the combined company may undertake foreign exchange hedging transactions to reduce foreign currency transaction exposure, it does not currently intend to eliminate all foreign currency transaction exposure.

**The combined company needs to improve and implement financial and managerial controls and improve its reporting systems and procedures. If the combined company is unable to do so successfully, it may not be able to manage growth effectively and its operating results would be harmed.**

The combination will place a significant strain on management, information systems and resources. In order to manage this growth effectively, the combined company will need to continue to improve its financial and managerial controls and reporting systems and procedures. Any inability of the combined company's management to integrate additional companies, employees, technology advances and customer service into operations and to eliminate unnecessary duplication may have a materially adverse effect on its business, financial condition and results of operations.

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

We agreed to a covenant in the combination agreement (which we refer to as the FIRPTA covenant) that we would use all commercially reasonable efforts to ensure that at all times from and after the closing of the combination until such time as neither STT Communications nor its affiliates hold our capital stock or debt securities (or the capital stock received upon conversion of the debt securities) received by STT Communications in connection with the consummation of the transactions contemplated in the combination agreement, none of our capital stock issued to STT Communications constitute United States real property interests within the meaning of Section 897(c) of the Internal Revenue Code of 1986, which we call the Code. Under Section 897(c) of the Code, our capital stock issued to STT Communications would generally constitute United States real property interests at such point in time that the fair market value of the United States real property interests owned by us equals or exceeds 50% of the sum of the aggregate fair market values of (a) our United States real property interests, (b) our interests in real property located outside the U.S., and (c) any other assets held by us which are used or held for use in our trade or business. Given that we currently own significant amounts of United States real property interests, we may be limited with respect to the business opportunities we may pursue, particularly if the business opportunities would increase the amounts of United States real property interests owned by us or decrease the amount of other assets owned by us. In addition, pursuant to the FIRPTA covenant we may be forced to take commercially reasonable proactive steps to ensure our compliance with the FIRPTA covenant, including, but not limited to, (a) a sale-leaseback transaction with respect to all real property interests, or (b) the formation of a holding company organized under the laws of the Republic of Singapore which would issue shares of its capital stock in exchange for all of our outstanding stock (this reorganization would require the submission of that transaction to our stockholders for their approval and the consummation of that exchange).

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**Customers of the combined company will include numerous related parties of i-STT.**

In the past, a substantial portion of i-STT's financing, as well as its revenues, has come from its affiliates. i-STT will 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 the combined company's other stockholders. In addition, Singapore Technologies Pte Ltd, an affiliate of STT Communications, makes investments in various companies; it has invested in the past, and may invest in the future, in entities that compete with the combined company. 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. There can be no assurance that any conflicts of interest will be resolved in the combined company's favor.

**The combination could harm key third party relationships.**

Our current and potential relationships, as well as the present and potential relationships of i-STT and Pihana, with customers and other third parties may be harmed by the combination. Uncertainties following the combination may cause these parties to delay decisions regarding these relationships. Any changes in these relationships could harm the combined company's business. Customers of Equinix, i-STT, or Pihana and other third parties may, in response to the announcement of the combination or loss of employees related to the integration of the businesses, delay or defer decisions concerning Equinix, i-STT, or Pihana. For example, the combination agreement requires Pihana to divest its data center in Korea. Many of the customers in Pihana's data center in Korea are potential customers of the combined company's other IBX hubs. The transfer or closure of Pihana's data center in Korea may result in the customers of Pihana's Korea data center choosing to do business with competitors of the combined company in other markets. That transfer could reduce or eliminate the combined company's revenue with respect to those customers and could have a negative affect on the combined company's operating results. The combined company could experience a decrease in expected revenue as a consequence of uncertainties associated with the combination. Any delay or deferral in those decisions by customers of Equinix, i-STT, or Pihana or other third parties could have a material adverse effect on the business of the combined company.

**Risks Related to Equinix, Inc.**

**The combined company's success is dependent on the retention of its executive officers and key employees following the combination.**

The combined company will be substantially dependent upon the continued service of our executive officers. In addition, the combined company will be dependent on the retention of key employees of Pihana and i-STT who have knowledge of the applicable local business environment and data center operations. Without these individuals as part of the management team for the combined company, it may be significantly more difficult to efficiently and effectively integrate our critical functions with those of i-STT and Pihana and create a combined company that can compete effectively against other Internet infrastructure companies.

**If the economy does not improve and the use of the Internet and electronic business does not grow, revenues of the combined company 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. In addition, even if consumers do adopt and continue to use online services, we do not expect a significant increase in revenues until the economy begins to improve generally. As a result, we cannot be certain that a viable market for our IBX hubs will materialize. If the market for the combined company's IBX hubs grows more slowly than we currently anticipate, the combined company's revenues will not

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grow and its operating results will suffer. If the combined company cannot grow revenues while reducing costs, it may not be able to comply with the covenants in the credit facility. If the combined company breaches the credit facility, the banks could require repayment of all amounts previously drawn down and the combined company will not have sufficient cash reserves to repay such amounts.

**We have significant debt and we may not generate sufficient cash flow to meet our debt service obligations.**

Assuming we retire \$124.9 million of our senior notes in the senior note exchange and we issue \$30.0 million of convertible secured notes, after the combination, the financing and the senior note exchange our total debt will likely consist primarily of the following:

- a total of \$22.3 million principal amount of senior notes;
- a total of \$92.5 million principal amount of loans under our credit facility;
- a total of \$30.0 million of newly issued convertible secured notes; and
- approximately \$9.0 million of other outstanding debt facilities and capital lease obligations.

The amount of the combined company's debt could have important consequences, including:

- impairing its ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes;
- requiring it to dedicate a substantial portion of its operating cash flow to paying principal and interest on indebtedness, thereby reducing the funds available for operations;
- limiting its ability to grow and make capital expenditures due to the financial covenants contained in its debt arrangements;
- impairing its ability to adjust rapidly to changing market conditions, invest in new or developing technologies, or take advantage of significant business opportunities that may arise; and
- making the combined company more vulnerable if a general economic downturn continues or if its businesses experience difficulties.

If the combined company cannot generate sufficient additional revenue and recognize sufficient synergy savings by combining the businesses, it may not be able to meet its debt service obligations or repay its debt when due or comply with other covenants in the credit facility. If the combined company breaches the credit facility, the banks could require repayment of all amounts previously drawn down, and the combined company will not have sufficient cash reserves to repay such amounts.

**We may be unable to raise the funds necessary to repay or refinance our indebtedness.**

We will be obligated to make principal and interest payments on our credit facility each year until 2006 and on our senior notes each year until 2007. Additionally, in 2006 our credit facility matures and in 2007 the convertible secured notes mature and our senior notes mature. Each of these obligations require significant amounts of liquidity. We may need additional capital to fund those obligations. Our ability to arrange financing and the cost of this financing will depend upon many factors, including:

- general economic and capital markets conditions generally, and in particular the non-investment grade debt market;
- conditions in the Internet infrastructure market;
- credit availability from banks or other lenders;
- investor confidence in the telecommunications industry generally and our company specifically;

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the success of our IBX hubs; and

provisions of tax and securities laws that are conducive to raising capital.

If we need additional funds, our inability to raise them will have an adverse effect on our operations. If we decide to raise additional funds by incurring debt, we may become subject to additional or more restrictive financial covenants and ratios.

**We are subject to restrictive covenants under the credit facility that limit our flexibility in managing our business.**

Our credit facility requires that the combined company maintain specific financial ratios and comply with covenants, including a monthly cash covenant, and contains numerous restrictions on our ability to incur debt, pay dividends or make other restricted payments, sell assets, enter into affiliate transactions and take other actions. Furthermore, our existing financial arrangements are, and future financing arrangements are likely to be, secured by substantially all of our assets. If we are unable to meet the terms of the financial covenants or if we breach any of these covenants, a default could result under one or more of these agreements. A default, if not waived by our lenders, could result in the acceleration of outstanding indebtedness and cause our debt to become immediately due and payable. If an acceleration occurs, we will not be able to repay our debt, and it is unlikely that we will be able to borrow sufficient additional funds to refinance our debt. Even if new financing is made available to us, it may not be available on terms acceptable to us.

**The combined company may not be able to maintain its listing on The Nasdaq National Market.**

Our stock is currently traded on The Nasdaq National Market. Under Nasdaq's listing maintenance standards, if the closing bid price of a company's common stock remains under \$1.00 per share for 30 consecutive trading days, Nasdaq will issue a deficiency notice to that company. If the closing bid price does not reach at least \$1.00 per share for a minimum of ten consecutive trading days during the 90 calendar days following the issuance of the deficiency notice from Nasdaq, Nasdaq may delist that company's common stock from trading on The Nasdaq National Market. On May 16, 2002 we received a notice from Nasdaq stating that we were not in compliance with Nasdaq's continued listing requirements because the minimum closing bid price of our common stock had remained below \$1.00 for 30 consecutive trading days. The letter further stated that the closing bid price of our common stock must be at least \$1.00 per share for ten consecutive trading days during the 90-day period subsequent to May 16, 2002, or Nasdaq would delist our common stock from trading on The Nasdaq National Market on or about August 14, 2002. On August 15, 2002, we received a notice from Nasdaq indicating that the failure of our common stock to maintain Nasdaq's minimum closing bid price requirement of \$1.00 has continued beyond the 90-day probationary period allowed under The Nasdaq National Marketplace Rules and, therefore, our common stock may be delisted. On August 21, 2002, we appealed the delisting decision and requested the delisting be stayed pending a hearing before the Nasdaq Qualifications Panel. A hearing was granted and we appeared before the panel on October 3, 2002. On November 25, 2002 the Nasdaq Qualifications Panel issued a decision to continue the listing of our common stock on The Nasdaq National Market. However, such continuance is contingent upon our ability to demonstrate compliance with all of the requirements for initial listing on The Nasdaq National Market. In addition, the Panel's decision is contingent upon the completion of the combination and related transactions on or before December 31, 2002.

The initial listing process can be time consuming, expensive and can divert management's attention away from the integration of the combined company. In addition, it is possible that the combined company would not meet the initial listing requirements of The Nasdaq National Market. In order to meet the initial listing requirements, the combined company must meet all of the requirements under at least one of three listing standards for initial listing on The Nasdaq National Market. The listing standards include minimum financial requirements for some or all of the following categories: stockholders' equity of \$15.0 million, income from continuing operations before income taxes of \$1.0 million, 1.1 million publicly held shares, \$8.0 million market value of publicly held shares, \$5 bid price, 400 round lot shareholders and 3 market makers. In addition, the

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listing standards include corporate governance requirements. The entry fees for initial listing vary depending on the number of shares being listed, ranging from \$100,000 to \$150,000. As of date of this filing, we would not meet the minimum bid price requirement for initial listing.

In order to avoid a delisting of our common stock, we will be required to take various measures, including effecting a reverse split of our common stock. We cannot predict that a reverse stock split will increase the market price for our common stock. The history of similar stock split combinations for a company in like circumstances is often not positive. There is no assurance that the market price per share of our common stock following a reverse stock split will either exceed or remain in excess of the \$5.00 minimum bid price as required by Nasdaq or that we will otherwise meet the requirements of Nasdaq for continued inclusion for trading on Nasdaq.

If the combined company's stock is delisted and thus no longer eligible for quotation on The Nasdaq National Market, it would trade either as a Nasdaq Small Cap issue or in the over-the-counter market, both of which are viewed by most investors as less desirable and less liquid marketplaces. The loss of the combined company's listing on The Nasdaq National Market would also complicate compliance with state blue-sky laws. Furthermore, our ability to raise additional capital would be severely impaired. As a result of these factors, the value of the common stock would decline significantly.

**A reverse split of our common stock will result in a greater number of stockholders with odd lots of less than 100 shares of our common stock, which may result in higher transaction fees and decreased liquidity for such stockholders.**

If the proposed reverse stock is implemented, it will increase the number of our stockholders who own odd lots of less than 100 shares of our common stock. Brokerage commissions and other costs of transactions in odd lots are generally higher than the costs of transactions of more than 100 shares of common stock. As a result, an increased number of our stockholders will have increased costs associated with the sale of their stock and may have increased difficulty selling their shares.

**A significant number of shares of our capital stock issued in connection with the combination, the financing and the senior note exchange 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.**

As described in this proxy statement, we are issuing a large number of shares of our capital stock to Pihana stockholders, STT Communications, other investors purchasing convertible secured notes in the financing and holders of our senior notes in connection with the combination, financing and senior note exchange. The shares of common stock issued in the senior note exchange may be sold into the public market immediately following the closing of the exchange. The shares of common stock issued in connection with the combination will be registered for resale within six months. Subject to the restrictions described in this proxy statement, the senior notes and warrants issued in connection with the financing are immediately convertible or exercisable into shares of common stock and the underlying shares of common stock may be registered for resale within six months of the closing. Sales of a substantial number of shares of our common stock by these parties within any narrow period of time could cause our stock price to fall. In addition, the issuance of the additional shares of our common stock as a result of these transactions will reduce our earnings per share, if any. This dilution could reduce the market price of our common stock unless and until the combined company achieves revenue growth or cost savings and other business economies sufficient to offset the effect of this issuance. There can be no assurance that the combined company will achieve revenue growth, cost savings or other business economies, or that our stockholders will achieve greater returns as a stockholder of the combined company than as a stockholder of our current company.

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**Our stock price is volatile and the number of shares of our common stock to be received in the combination will not be adjusted in the event of any change in our stock price.**

Under the combination agreement, the number of shares of our common stock that i-STT and Pihana stockholders will receive in the combination will not be adjusted because of any increase or decrease in the price of Equinix common stock as reflected on The Nasdaq National Market. The price of our common stock at the closing may vary from its price on the date of this proxy statement and on the date of our special meeting. Further, under the combination agreement, neither Equinix, i-STT nor Pihana will have the right to terminate or renegotiate the combination agreement or to resolicit proxies as a result of any increase or decrease in the value of our common stock. If the price of our common stock goes up substantially, it may appear we have issued too many shares in exchange for the assets we are receiving in the combination. The market price of our common stock, like that of many other Internet infrastructure companies, has been and will likely continue to be volatile. Recently, the stock market in general and the shares of Internet infrastructure companies in particular, have experienced significant price fluctuations. The market price of our common stock may continue to fluctuate significantly in response to various factors, including without limitation:

- changes in our business, operations or prospects;
- the timing of the completion of the combination;
- the prospects of post-combination operations; and
- general market and economic conditions.

**The combined company's profitability will be affected by the average selling price of its services and its operations efficiency rates.**

Decreases in the average selling prices of our, i-STT's, and Pihana's services have had and will continue to have a material adverse effect on its profitability. Historically, the average per square foot selling price of our, i-STT's and Pihana's services have declined since the commencement of their respective operations. The combined company's ability to achieve profitability will continue to be dependent, in large part, upon its ability to offset any decreases in average per square foot selling prices by improving operations efficiency, and increasing the value added services provided at its IBX hubs. If the combined company is unable to do so, its business, financial condition and results of operations could be materially adversely affected.

**The combined company will resell products and services of third parties that may require that it pay for such services even if its customers fail to pay the combined company for the services which may have a negative impact on the combined company's operating results.**

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

**The combined company may not be able to compete successfully against current and future competitors.**

The combined company's IBX hubs and other products and services must be able to differentiate themselves from existing providers of space and services for telecommunications companies, web hosting companies and other colocation providers. In addition to competing with neutral colocation providers, it must compete with traditional colocation providers, including local phone companies, long distance phone companies, Internet service providers and web hosting facilities. Likewise, with respect to the combined company's other products

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and services, including managed services, bandwidth services and security services, the combined company 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 the combined company.

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

The combined company may also face competition from persons seeking to replicate its IBX concept. Competitors may operate more successfully or form alliances to acquire significant market share. Furthermore, enterprises that have already invested substantial resources in peering arrangements may be reluctant or slow to adopt the combined company's approach that may replace, limit or compete with their existing systems. In addition, other companies may be able to attract the same potential customers that the combined company will be targeting. Once customers are located in competitors' facilities, it will be extremely difficult to convince them to relocate to the combined company's IBX hubs.

**Because the combined company depends on the development and growth of a balanced customer base, failure to attract and retain this base of customers could harm the combined company's business and operating results.**

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

**The combined company's products and services have a long sales cycle that may materially adversely affect the combined company's business, financial condition and results of operations.**

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

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

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

We are not a telecommunications carrier, and as such we rely on third parties to provide our customers with carrier services. We rely primarily on revenue opportunities from their customers to encourage carriers to invest the capital and operating resources required to build facilities from their locations to our IBX hubs. Carriers will likely evaluate the revenue opportunity of an IBX hub based on the assumption that the environment will be highly competitive. There can be no assurance that any carrier will elect to offer its services within the combined company's IBX hubs. In addition, there can be no assurance once a carrier has decided to provide Internet connectivity to the combined company's IBX hubs that it will continue to do so for any period of time.

The construction required to connect multiple carrier facilities to the combined company's IBX hubs is complex and involves factors outside of its control, including regulatory processes and the availability of construction resources. If the establishment of highly diverse Internet connectivity to the combined company's IBX hubs does not occur or is materially delayed or is discontinued, the combined company's operating results and cash flow will be adversely affected. Further, many carriers are experiencing business difficulties. As a result, some carriers may be forced to terminate connectivity within the combined company's IBX hubs. For example, on January 16, 2001, NorthPoint Communications, a carrier in one of our IBX hubs, announced that it filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code. As a result, NorthPoint terminated connectivity in our IBX hubs after its assets were sold. As an additional example, Worldcom, a significant carrier within our IBX hubs, has also recently filed a voluntary petition for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code.

**Any failure of the combined company's physical infrastructure or services could lead to significant costs and disruptions that could reduce its revenue and harm its business reputation and financial results.**

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

human error;

physical or electronic security breaches;

fire, earthquake, flood and other natural disasters;

water damage;

power loss;

sabotage and vandalism; and

failure of business partners who provide the combined company's resale products.

Problems at one or more of the combined company's IBX hubs, whether or not within our control, could result in service interruptions or significant equipment damage. In the past, a limited number of our customers have experienced temporary losses of power and failure of our services levels on products such as bandwidth connectivity. If the combined company incurs significant financial commitments to its customers in connection with a loss of power, or its failure to meet other service level commitment obligations, its liability insurance may not be adequate to cover those expenses. In addition, any loss of services, equipment damage or inability to meet its service level commitment obligations, particularly in the early stage of the combined company's development,



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could reduce the confidence of its customers and could consequently impair its ability to obtain and retain customers, which would adversely affect both its ability to generate revenues and its operating results.

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

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

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

To the extent a failure of the combined company's physical infrastructure, services, or services provided by service providers results in decreased revenues, the combined company may not be able to comply with covenants in its credit facility. If the combined company is unable to comply with covenants in its credit facility, the banks may require repayment of all outstanding amounts, and the combined company will not have sufficient cash reserves to repay those amounts.

### **The combined company's business could be harmed by prolonged electrical power outages or shortages, increased costs of energy or general availability of electrical resources.**

The combined company's IBX hubs are susceptible to regional costs of power, electrical power shortages, planned or unplanned power outages caused by these shortages, such as those that occurred in California during 2001, and limitations, especially internationally, of adequate power resources. The overall power shortage in California has increased the cost of energy, which we may not be able to pass on to the combined company's customers. We attempt to limit exposure to system downtime by using backup generators and power supplies. Power outages, which last beyond the combined company's backup and alternative power arrangements, could harm its customers and its business.

### **The combined company may experience service interruptions, loss of customers and drain on resources if it is unable to renew its facility leases.**

The combined company will have several short term leases on its IBX hubs that are located outside of North America. For example, i-STT currently leases approximately 86,100 square feet for its facility in Singapore, of which approximately 71,900 square feet expire in July 2003. Upon its expiration, the combined company may not be able to renew its leases under reasonable terms, if at all and may have to relocate its IBX hubs to other facilities. A relocation of any IBX hub could result in service interruptions and significant additional expenses. In addition, seeking a new facility could divert management's attention and the combined company's resources.

### **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

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there has been some legislative action. This is true both in the U.S. and the various foreign countries in which the combined company will 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 those of the combined company. The combined company has little experience with such international regulatory issues and substantial resources of the company may be required to comply with regulations or bring any non-complaint 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 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 services providers. The compliance with, adoption of or modification of laws or regulations relating to the Internet, or interpretations of the existing law, could have a material adverse effect on the combined company's business, financial condition and results of operation.

**Recent terrorist activity throughout the world and military action to counter terrorism could adversely impact the combined company's 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, result in increased costs due to the need to provide enhanced security, which would have a material adverse effect on the combined company's business and results of operations. These circumstances may also adversely affect the combined company's ability to attract and retain customers, its ability to raise capital and the operation and maintenance of its IBX hubs.

**The combined company may make acquisitions, which pose integration and other risks that could harm the combined company's business.**

We may seek to acquire complementary businesses, products, services and technologies. As a result of these acquisitions, we may be required to incur additional debt and expenditures and issue additional shares of the combined company's stock to pay for the acquired business, product, service or technology, which will dilute existing stockholders' ownership interest in the combined company. In addition, if we fail to successfully integrate and manage acquired businesses, products, services and technologies, the combined company's business and financial results would be harmed.

**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. The defense of this litigation may increase the combined company's expenses and divert its management's attention and resources. An adverse outcome in this litigation could seriously harm the combined company's business and results of operations. In addition, the combined company may, in the future, be subject to other securities class action or similar litigation.

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**CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS**

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of the management of Equinix, i-STT and Pihana, based on information currently available to each company's management. The use of words such as believes, expects, anticipates, intends, estimates, should, likely or similar expressions indicates that a forward-looking statement is being made. Forward-looking statements include, among other things, the information concerning possible or assumed future results of operations of the combined company set forth under:

Summary ;

Risk Factors ;

The Combination ;

The Financing ;

The Senior Note Exchange ;

Unaudited Pro Forma Combined Consolidated Condensed Financial Statements ;

Management's Discussion and Analysis of Financial Condition and Results of Operations of Equinix ;

Management's Discussion and Analysis of Financial Condition and Results of Operations of i-STT ; and

Management's Discussion and Analysis of Financial Condition and Results of Operations of Pihana.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. The future results and stockholder values of Equinix, i-STT and Pihana may differ materially from those expressed in the forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict. Stockholders are cautioned not to put undue reliance on any forward-looking statements. Those statements are made in reliance on the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. For a discussion of some of the factors that may cause actual results to differ materially from those suggested by the forward-looking statements, please read carefully the information under Risk Factors beginning on page 24. This list of factors that may affect future performance and the accuracy of forward-looking statements is illustrative, but by no means exhaustive. Accordingly, all forward-looking statements should be evaluated with the understanding of their inherent uncertainty. Equinix, i-STT and Pihana expressly disclaim any obligation to update or alter forward-looking statements, whether as a result of new information, future events or otherwise.

**Table of Contents****MARKET PRICE AND DIVIDEND INFORMATION****Equinix Common Stock**

Our common stock is traded on The Nasdaq National Market under the symbol EQIX. Our common stock began trading in August 2000. The following table sets forth the range of high and low sales prices reported on The Nasdaq National Market for our common stock for the periods indicated.

	<b>Common Stock Price</b>	
	<b>High</b>	<b>Low</b>
<b>Year ended December 31, 2000:</b>		
Third Quarter (beginning August 10, 2000)	\$ 16.19	\$ 8.88
Fourth Quarter	9.75	3.50
<b>Year ended December 31, 2001:</b>		
First Quarter	\$ 7.00	\$ 1.25
Second Quarter	1.73	0.59
Third Quarter	1.43	0.38
Fourth Quarter	3.37	0.39
<b>Year ended December 31, 2002:</b>		
First Quarter	\$ 3.38	\$ 1.06
Second Quarter	1.15	0.35
Third Quarter	0.58	0.21
Fourth Quarter (through November 22, 2002)	0.36	0.22

On October 1, 2002, the last full trading day prior to the public announcement of the execution and delivery of the combination agreement, the last reported sale price of our common stock on The Nasdaq National Market was \$0.36 per share. On November 22, 2002, the last reported sale price of our common stock on The Nasdaq National Market was \$0.28 per share.

Because the market prices of our common stock may fluctuate, the market prices per share of the shares of our common stock that holders of i-STT and Pihana capital stock will receive in the combination, as reported on The Nasdaq National Market, may increase or decrease prior to the combination.

**i-STT Capital Stock**

i-STT's capital stock is not publicly traded.

**Pihana Capital Stock**

Pihana's capital stock is not publicly traded.

**Stockholders**

As of September 30, 2002, we had issued and outstanding 98,892,711 shares of our common stock held by approximately 461 stockholders of record.

As of October 2, 2002, i-STT had issued and outstanding 54,000,000 shares of its stock, all of which are held by STT Communications.

As of October 2, 2002, Pihana had issued and outstanding 34,765,057 shares of its common stock and 85,189,965 shares of its preferred stock held by approximately 56 stockholders of record.

**Dividends**

Neither Equinix, i-STT nor Pihana have ever declared or paid cash dividends on their respective capital stock. The combined company currently expects to retain future earnings, if any, for use in the operation and expenses of our business and does not anticipate paying any cash dividends in the foreseeable future.



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### **OUR SPECIAL MEETING**

#### **General Information**

This proxy statement is furnished in connection with the solicitation of proxies by our board of directors for a special meeting of stockholders to be held at the offices of Willkie Farr & Gallagher located at 787 Seventh Avenue, New York, New York 10019, on Monday, December 30, 2002, beginning at 9:00 a.m. Eastern Time, and at any adjournment or postponement of the special meeting.

#### **Voting Rights and Solicitation of Proxies**

Our common stock is the only type of security entitled to vote at the special meeting. At the close of business on November 22, 2002, the record date for determination of stockholders entitled to vote at the special meeting, there were 98,892,711 shares of common stock outstanding. Each stockholder of record on the record date is entitled to one vote for each share of common stock held by such stockholder on the record date. All votes will be tabulated by the inspector of elections appointed for the meeting, who will separately tabulate affirmative and negative votes, abstentions and broker non-votes.

#### **Quorum Required**

Our bylaws provide that the holders of a majority of our common stock issued and outstanding and entitled to vote at the special meeting, present in person or represented by proxy, will constitute a quorum for the transaction of business at the special meeting. Abstentions and broker non-votes will be counted as present for the purpose of determining the presence of a quorum.

#### **Votes Required**

*Proposal 1.* Approval of the issuance of shares of our common stock and preferred stock in connection with the combination, the financing and the senior note exchange, requires the affirmative vote of a majority of the shares of common stock present at the special meeting and entitled to vote at the special meeting so long as quorum of stockholders is achieved. Abstentions will have the same effect as a vote cast against the proposal. Broker non-votes will have no effect on the approval.

*Proposal 2.* Adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of common stock entitled to vote at the special meeting. Abstentions and broker non-votes will have the same effect as a vote cast against the proposal.

#### **Proxies**

Whether or not you are able to attend our special meeting, you are urged to complete and return the enclosed proxy, which is solicited by the board of directors and which will be voted as you direct on your proxy when properly completed. In the event no directions are specified, such proxies will be voted as follows:

1. FOR approval of the issuance of shares of our common stock and preferred stock in connection with the combination, the financing and the senior note exchange; and
2. FOR adoption of the agreement and plan of merger, dated as of October 17, 2002, by and between us and our wholly-owned subsidiary, Eagle Oasis, Inc.

You may also revoke or change your proxy at any time before the special meeting. To do this, send a written notice of revocation or another signed proxy with a later date to our corporate secretary so that it is received at our principal executive offices before the beginning of the special meeting. You may also automatically revoke your proxy by attending the special meeting and voting in person. All shares represented by a valid proxy received prior to the special meeting will be voted.

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**Solicitation of Proxies**

We have retained Georgeson Shareholder Communications, Inc. at a cost of approximately \$10,000 to solicit proxies. We will bear the entire cost of solicitation, including the preparation, assembly, printing and mailing of this proxy statement, the proxy, and any additional solicitation material furnished to stockholders. Copies of solicitation material will be furnished to brokerage houses, fiduciaries and custodians holding shares in their names that are beneficially owned by others so that they may forward this solicitation material to such beneficial owners. In addition, we may reimburse such persons for their costs of forwarding the solicitation material to such beneficial owners. The original solicitation of proxies by mail may be supplemented by solicitation by telephone, telegram or other means by our directors, officers, employees or agents. No additional compensation will be paid to these individuals for those services.

**Appraisal Rights**

Our stockholders are not entitled to appraisal rights in connection with the issuance of shares of our common stock and shares of our preferred stock in connection with any of the proposals in this proxy statement or in connection with the transactions contemplated by the charter merger.

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**PROPOSAL 1**

**THE ISSUANCE OF SHARES IN CONNECTION WITH THE COMBINATION, THE FINANCING AND THE SENIOR NOTE EXCHANGE**

*This section of this proxy statement describes material aspects of the combination, the financing and the senior note exchange. Although the description covers the material terms of the transaction, this summary may not contain all of the information important to our stockholders about each transaction. You should carefully read the combination agreement which is attached as Annex A and the other documents to which you are referred in this proxy statement for a more complete understanding of the combination.*

**Background of the Combination, the Financing and the Senior Note Exchange**

In recent years, as a part of the continuous evaluation of our business, we have regularly considered a variety of strategic initiatives and transactions with a view toward increasing stockholder value. We have explored different strategic alternatives, including the consideration of acquisitions, dispositions and commercial relationships.

Commencing in mid-2001, members of our executive management team began to explore various financing strategies and alternatives intended to reduce our outstanding debt and to raise new equity capital. These strategies and alternatives included raising new equity, issuing new debt, commencing a tender for all of our bonds in exchange for equity only, and reorganizing either through a formal bankruptcy proceeding or through an out-of-court restructuring. Given the economy, and specifically the environment in the telecommunication sector, we had no other alternatives that would have allowed us to avoid filing for bankruptcy protection, other than the proposed combination and financing. We believe that a bankruptcy filing would negatively impact our underlying business and would result in the value of our existing equity being virtually, if not entirely, eliminated. As a result, we rejected these alternatives.

In August 2001, we began discussions with Pihana regarding the possibility of entering into a strategic sales relationship. These discussions continued over the course of the next month and, in September 2001, we entered into a strategic selling agreement with Pihana whereby we would refer our customers seeking a colocation facility in Asia to Pihana's data centers. We selected Pihana because their business model, specifically their focus on maintaining a carrier-neutral status, was most closely aligned with our business model, which is critical to our ability to service many of our existing and prospective customers. No other entities in Asia were as closely aligned with our business model as Pihana.

In late October 2001, our board of directors, together with our executive management team, discussed our existing capital structure, future capital requirements and financing strategies and alternatives potentially available to us, including the possibility of raising additional equity capital and using a portion of the proceeds from an equity capital infusion to retire a portion of our outstanding senior notes.

Beginning in early November 2001, members of our executive management team had numerous meetings with a number of potential equity investors.

On November 12, 2001, members of the Pihana executive management team presented to our executive management team an overview of Pihana's business and discussed in a preliminary manner the possibility of Pihana collaborating in some manner with us, including a possible merger to strengthen both of our businesses.

In January 2002, our and Pihana's executive management teams continued to explore the possibility of collaborating together, including a combination of the companies' facilities, management agreements for specified facilities or a combination of the two businesses.



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On February 12, 2002, our board of directors held a regular meeting and discussed, among other matters, the status of discussions with potential equity investors. At this meeting, our board of directors authorized management to engage a financial advisor to assist us in, among other things, developing a comprehensive financing strategy, including raising additional capital. We subsequently engaged Salomon Smith Barney.

Through February and March of 2002, we continued to discuss with Pihana, on a preliminary basis, the possibility of working together, including combining our two businesses.

Commencing in early March 2002, with the assistance of our financial advisor, more than 60 financial investors were identified and contacted to determine such investors' interest in making an investment in our securities. One of the investors contacted was Columbia Capital, a large stockholder of Pihana. Of those investors contacted, approximately 25 agreed to execute a non-disclosure agreement and review materials regarding our business and the proposed transaction.

Beginning in late March 2002, members of our executive management team and representatives of our financial advisor met with more than 20 potential investors.

At a meeting with Columbia Capital, an investor in Pihana, on April 3, 2002, Columbia Capital preliminarily indicated that it might be interested in participating in a financing transaction if the transaction included our acquisition of Pihana.

During the next several months, we had numerous meetings with potential investors, including multiple follow up due diligence sessions and negotiations regarding possible transaction structures and post-transaction capitalization.

In April and May 2002, there were numerous meetings and negotiations among us, Pihana, Columbia Capital and the parties' advisors to discuss further the status of the two businesses and the various proposals. These discussions focused on the possibilities of a transaction that would include our acquisition of Pihana, a capital investment in our secured convertible debt obligations by Columbia Capital and other Pihana stockholders, a reduction in our overall debt to a specified level and a restructuring of the covenants under our credit facility.

Throughout May 2002, we, together with our advisors, met with Pihana, its advisors and Columbia Capital numerous times to further discuss the terms and conditions of a possible transaction.

In mid-June 2002, Pihana indicated to us that it and its advisor would be able to introduce to us another party that expressed interest in participating in a business combination and financing transaction. Pihana and its advisor subsequently introduced us to Singapore Technologies Telemedia and STT Communications. STT Communications and Pihana agreed between themselves that each would participate in a transaction with us only if the other also participated.

On June 20, 2002, a member of our executive management team and a member of Pihana's executive management team and its advisors met with several i-STT and STT Communications executives in Singapore to present an overview of our business and Pihana's business and a possible business combination and financing.

On June 24, 2002, our board of directors held a special meeting to discuss, among other things, the status of our financing efforts and to receive an update on the meetings with i-STT and STT Communications.

In mid-July 2002, we held a number of discussions with Pihana, Columbia Capital and STT Communications and our respective advisors regarding the possible structure and terms and conditions of a business combination and financing. Each of the parties also began due diligence reviews at the end of July 2002.

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On August 2, 2002, our board of directors held a regular meeting during which, among other matters, it discussed the status of the negotiations with STT Communications, Pihana and Columbia Capital as well as the possibility of other financing alternatives.

Through August 2002, we continued to discuss the terms and conditions of a business combination and financing with Pihana, Columbia Capital and STT Communications and our respective advisors, including the purchase prices related to the combination, the financial terms and related operational covenants of the financing, conditions to the consummation of the combination and financing, the necessary working capital requirements of the combined company, the necessary reduction in our outstanding debt and the terms and conditions of a renegotiated credit facility. In late August 2002, members of our executive management team met with representatives of our senior lenders and a number of holders of our senior notes to provide an overview of the possible business combination and financing transaction. These discussions were subject to confidentiality agreements.

Negotiations among Equinix, Pihana, Columbia Capital, STT Communications, our senior lenders and certain holders of our senior notes continued through September 2002, with discussions focused on a wide variety of issues, including the terms and conditions of the combination, the financing, the senior note exchange and the amendment to our credit facility. At this time, Columbia Capital advised us that it would not be able to participate in the financing as the parties had been contemplating. The parties' due diligence efforts continued throughout the month.

On September 16, 2002, our board of directors held a special meeting with our executive management team, together with our legal and financial advisors, at which our board of directors reviewed the general structure of the proposed business combination and financing transaction and authorized our management team to continue negotiating the terms of the proposed transaction. At this meeting, our management and our advisors reviewed in detail with our board of directors the material terms of the transaction as currently proposed as well as the open issues not yet resolved by the parties.

Following this meeting through September 30, 2002, we, Pihana, STT Communications, our senior lenders and significant holders of our senior notes continued to negotiate the financial terms and conditions of the possible transaction. The parties also continued to finalize their due diligence reviews.

Late in the day on September 30, 2002, our board of directors met with our executive management team, together with our legal and financial advisors. Our management and advisors updated our board of directors on the resolution of issues that were not previously resolved. Salomon Smith Barney reviewed its financial analysis of the aggregate consideration to be paid by Equinix in the combination and informed our board of directors that, assuming no material changes in the transactions, and subject to review of the definitive combination agreement and related agreements, it would be in a position to deliver an opinion regarding the fairness, from a financial point of view, to Equinix of the aggregate consideration to be paid by Equinix in the combination. Salomon Smith Barney's opinion was subsequently delivered in connection with the execution of the combination agreement. Following a full discussion, our board of directors approved the combination and financing as well as related matters, and authorized our management to enter into the combination agreement, the securities purchase agreement and related agreements.

Early in the morning on October 2, 2002, the parties executed and delivered the combination agreement and the securities purchase agreement and we issued a press release announcing the transaction.

### **Our Reasons for the Combination, the Financing and the Senior Note Exchange**

Our board of directors believes that the terms of the combination agreement and the transactions contemplated thereby are in our best interests and the interests of our stockholders. Accordingly, at a meeting held on September 30, 2002, our board of directors approved the combination agreement and recommends that

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our stockholders approve the issuance of shares of our common stock and preferred stock in connection with the combination, the financing and the senior note exchange. The summary set forth below briefly describes the reasons, factors and information taken into account by our board of directors in reaching its conclusion. Our board of directors did not assign any relative or specific weights to the factors considered in reaching its determination, and individual directors may have given differing weights to different factors.

In reaching its determination, our board of directors consulted with our management and legal and financial advisors, and carefully considered a number of benefits, including:

*Additional Capital.* Our board of directors considered the opportunity to raise sufficient additional capital to retire more than \$130 million of our aggregate debt, through the payment of cash and issuance of equity. The retirement of this debt significantly enhances the financial position of the combined company going forward.

*Potential Bankruptcy.* Our board of directors considered that we do not have sufficient cash reserves to pay our debts and that we will most likely seek bankruptcy protection if we do not complete the combination, the financing or a similar transaction.

*Financial Considerations.* Our board of directors evaluated the financial terms of the combination agreement and their effect on the holders of our common stock. Our board of directors also considered the financial performance and condition, businesses and prospects of Equinix, i-STT and Pihana on a stand-alone and combined basis, including information with respect to the respective earnings history and performance of each of the companies, as well as the results of our due diligence review of the companies. With respect to i-STT it was important that its operations were essentially break-even and with respect to Pihana it was important that despite the fact its operations were running at a loss, that they were projected to have cash in excess of \$25.0 million as of December 31, 2002. In addition, our board of directors believes that the combination will create a stronger, more competitive company with greater growth potential and long-term financial stability than we would have on our own, and will, potentially, allow our stockholders to share in the combined company's new growth as a result of the combination.

*Complementary Nature of Businesses.* Our board of directors considered the strategic fit between the carrier-neutral business models of Equinix, i-STT, and Pihana, including an analysis of the customer bases, product offerings and geographic areas of service. Our board of directors evaluated the potential of the combined company to successfully compete in the global marketplace with the advantages of scale and geographic reach in key cities in the U.S. and Asia and determined that we would achieve significant competitive advantage exists with the combination. Additionally, our board of directors believes there are significant revenue opportunities to be gained in expanding important channel partnership relationships, such as IBM and Electronic Data Systems, serving the international needs of strategic customers such as America Online and Electronic Arts, and expanding the product and service offerings to existing and new customers in the combined company.

*Market Potential.* Our board of directors considered the expanded market opportunity available as the combined company of Equinix, i-STT and Pihana creates the largest global network company of neutral Internet exchange services company and significantly expands the market potential of each company. The respective companies gain access to new markets and additional growth potential without expending additional capital.

*Operational Benefits.* Our board of directors considered the benefits from leveraging core strengths in sales, marketing and network engineering as well as the benefits gained from the rationalization of technologies and overhead operations in combining the three companies.

*The Financial Presentation and Opinion of Our Financial Advisor.* Our board of directors considered the financial presentation of Salomon Smith Barney with respect to the combination, including its written opinion dated October 2, 2002 to our board of directors as to the fairness, from a financial point

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of view and as of the date of its opinion, to Equinix of the aggregate consideration to be paid by Equinix in the combination, as more fully described under the section entitled *Opinion of Our Financial Advisor*.

*Terms of the Combination Agreement and Related Agreements.* Our board of directors took into consideration the terms of the combination agreement and the related agreements, including the form and amount of consideration and the representations, warranties, covenants and conditions contained in those agreements. Our board of directors also considered the possibility of other financial alternatives to the combination. Our board of directors determined that the combination was the most effective transaction available to us for the purposes of enhancing long-term value for our stockholders.

Our board also identified and considered a number of potentially negative factors in its deliberations concerning the combination, including the following:

the risk that the potential benefits and synergies of the combination may not be realized;

the risk that the combination might not be consummated despite the efforts of the parties, even if approved by our stockholders;

the challenges of integrating the management teams, cultures, and organizations of the three companies;

the risk of disruption of the on-going businesses of Equinix, i-STT and Pihana, including sales momentum, as a result of uncertainties created by the announcement of the combination;

the substantial charges to be incurred in connection with the combination, including the costs of integrating the businesses and transaction expenses arising from the combination;

the risk that Pihana's cash position will not meet expectations, given the current market environment; and

the risk that, despite the efforts of the combined company, key technical and management personnel might not remain employed by the combined company.

The discussion of the information and factors considered by our board of directors is not intended to be exhaustive. In view of the variety of factors considered in connection with its evaluation of the combination, our board of directors did not find it practicable to, and did not, quantify or otherwise assign relative weight to the specific factors considered in reaching their determination.

## **Recommendation of Our Board of Directors**

For the reasons discussed above, our board of directors has unanimously approved and adopted the combination, the financing and the senior note exchange and believes that the terms of those transactions are in our best interests and those of our stockholders. Our board of directors unanimously recommends that our stockholders vote FOR the approval of the issuance of shares in the combination, the financing and the senior note exchange.

## **Opinion of Our Financial Advisor**

We retained Salomon Smith Barney to act as our financial advisor in connection with the proposed combination. In connection with this engagement, we requested that Salomon Smith Barney evaluate the fairness, from a financial point of view, to Equinix of the aggregate consideration to be paid by Equinix in the combination. Salomon Smith Barney delivered to the Equinix board of directors a written opinion dated October 2, 2002, the date of execution of the combination agreement, to the effect that, as of that date and based on and subject to the matters described in the opinion, the aggregate consideration to be paid by Equinix in the combination was fair, from a financial point of view, to Equinix. In this section we refer to the combination, the financing, the senior note exchange and the amendment to our credit facility collectively as the *transactions*.

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In arriving at its opinion, Salomon Smith Barney:

reviewed the combination agreement and related documents;

held discussions with our senior officers, directors and our other representatives and advisors and senior officers and other representatives of Pihana and i-STT concerning the businesses, operations and prospects of Equinix, Pihana and i-STT;

examined publicly available business and financial information relating to Equinix and other business and financial information relating to Pihana and i-STT;

examined financial forecasts, estimates and other information and data relating to Equinix, Pihana and i-STT, which were provided to or otherwise discussed with Salomon Smith Barney by the management of Equinix, Pihana and i-STT, including operational benefits anticipated by the management of Equinix to result from the transactions;

reviewed the financial terms of the transactions as described in the combination agreement and related documents or as otherwise described to Salomon Smith Barney by our representatives in relation to, among other things, current and historical market prices and trading volumes of our common stock, the historical and projected earnings and other operating data of Equinix, Pihana and i-STT, and the capitalization and financial condition of Equinix, Pihana and i-STT, including the liquidity needs of, and capital resources available to, Equinix;

analyzed the estimated present value of unlevered, after-tax free cash flows of Equinix using assumptions of future financial performance of Equinix before and after giving effect to the transactions provided to or discussed with Salomon Smith Barney by our management;

considered, to the extent publicly available, the financial terms of bankruptcy transactions effected which Salomon Smith Barney considered relevant;

reviewed financial, stock market and other publicly available information relating to the businesses of other companies whose operations Salomon Smith Barney considered relevant in evaluating those of Equinix;

evaluated the potential pro forma financial impact of the transactions on Equinix;

at our direction, solicited, and held discussions with, third parties regarding a possible investment in, or strategic transaction with, Equinix; and

conducted other analyses and examinations and considered other financial, economic and market criteria as Salomon Smith Barney deemed appropriate in arriving at its opinion.

In rendering its opinion, Salomon Smith Barney assumed and relied, without independent verification, on the accuracy and completeness of all financial and other information and data publicly available or furnished to or otherwise reviewed by or discussed with it. With respect to financial forecasts, estimates and other information and data relating to Equinix, Pihana and i-STT provided to or otherwise discussed with Salomon Smith Barney, Equinix's, Pihana's and i-STT's management advised Salomon Smith Barney that those forecasts, estimates and other information and data were reasonably prepared on bases reflecting the best currently available estimates and judgments of Equinix's, Pihana's and i-STT's management as to the future financial performance of Equinix, Pihana and i-STT, the pro forma capital structure of Equinix and other matters, and Salomon Smith Barney assumed, with our consent, that the financial results reflected in those forecasts, estimates and other information and data would be realized in the amounts and at the times projected. Salomon Smith Barney assumed, with our consent, that the transactions will be consummated in accordance with their terms, without waiver, modification or amendment of any material term, condition or agreement and that, in the course of obtaining the necessary regulatory and third party approvals and consents for the transactions, no delay, limitation, restriction or condition will be imposed that would have an adverse effect on Equinix, Pihana or i-STT or the contemplated benefits to Equinix of the transactions.

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Salomon Smith Barney did not express any opinion as to what the value of our common stock or our other securities issuable in connection with the transactions actually will be when issued or the prices at which those securities will trade or otherwise be transferable at any time. Salomon Smith Barney did not make and was not provided with an independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Equinix, Pihana or i-STT and did not make any physical inspection of the properties or assets of Equinix, Pihana or i-STT. Our representatives advised Salomon Smith Barney, and at our direction Salomon Smith Barney assumed, that the financing, the senior note exchange and the amendment to our credit facility would not occur in the absence of the combination. Our representatives also advised Salomon Smith Barney and, at our direction Salomon Smith Barney assumed, that, given Equinix's financial condition and near-term prospects, including, without limitation, its financial ability to satisfy its outstanding obligations and working capital requirements, and the results of the business strategies and financial alternatives which Equinix had explored to date, Equinix's most likely available alternatives were (a) to commence bankruptcy or similar proceedings or (b) to effect the transactions. Accordingly, with our consent, for purposes of Salomon Smith Barney's opinion, Salomon Smith Barney's evaluation of the aggregate consideration to be paid in the combination was based on a comparison of the estimated per share value of our common stock before and after giving effect to the transactions. Salomon Smith Barney's opinion does not address any other aspect of the transactions, the relative merits of the transactions as compared to any alternative business strategies or financial alternatives that might exist for Equinix or the effect of any other transaction in which Equinix might engage. Salomon Smith Barney's opinion is necessarily based on information available to Salomon Smith Barney, and financial, stock market and other conditions and circumstances existing and disclosed to Salomon Smith Barney, as of the date of its opinion. We imposed no other instructions or limitations on Salomon Smith Barney with respect to the investigations made or procedures followed by Salomon Smith Barney in rendering its opinion.

**The full text of Salomon Smith Barney's written opinion dated October 2, 2002, which describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is attached to this proxy statement as Appendix B and incorporated into this proxy statement by reference. Salomon Smith Barney's opinion was provided in connection with the combination and relates only to the fairness, from a financial point of view, to Equinix of the aggregate consideration to be paid by Equinix in the combination, does not address any other aspect of the combination or any aspect of any related transaction, including the financing, the senior note exchange or the amendment to our credit facility, and does not constitute a recommendation to any stockholder as to how such stockholder should vote or act on any matters relating to the combination or any related transaction.**

In preparing its opinion, Salomon Smith Barney performed a variety of financial and comparative analyses, including those described below. The summary of these analyses is not a complete description of the analyses underlying Salomon Smith Barney's opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to summary description. Accordingly, Salomon Smith Barney believes that its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying its analyses and opinion.

In its analyses, Salomon Smith Barney considered industry performance, general business, economic, market and financial conditions and other matters existing as of the date of its opinion, many of which are beyond the control of Equinix, Pihana and i-STT. No company, transaction or business used in those analyses as a comparison is identical to Equinix, Pihana and i-STT or the proposed transactions, and an evaluation of those analyses is not entirely mathematical. Rather, the analyses involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the transactions, public trading or other values of the companies, business segments or transactions analyzed.

The estimates contained in Salomon Smith Barney's analyses and the valuation ranges resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which

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may be significantly more or less favorable than those suggested by its analyses. In addition, analyses relating to the value of businesses or securities do not necessarily purport to be appraisals or to reflect the prices at which businesses or securities actually may be sold. Accordingly, Salomon Smith Barney's analyses and estimates are inherently subject to substantial uncertainty.

Salomon Smith Barney's opinion and analyses were only one of many factors considered by the Equinix board of directors in its evaluation of the combination and should not be viewed as determinative of the views of the Equinix board or management with respect to the combination or the aggregate consideration to be paid by Equinix in the combination.

The following is a summary of the material financial analyses performed by Salomon Smith Barney in connection with the rendering of its opinion dated October 2, 2002 to our board of directors. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Salomon Smith Barney's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Salomon Smith Barney's financial analyses.**

*Equinix Financial Analyses*

*Introduction.* Salomon Smith Barney's evaluation of the aggregate consideration to be paid by Equinix in the combination was based on a comparison of the estimated per share value of our common stock before and after giving effect to the transactions. Salomon Smith Barney performed discounted cash flow analyses for Equinix both on a standalone and pro forma basis in order to compare the estimated implied per share equity reference ranges for Equinix before and after giving effect to the transactions and also analyzed the estimated implied equity reference range for Equinix based on the financial terms of selected transactions involving companies in the web hosting industry that either were sold or recapitalized through a bankruptcy process. Salomon Smith Barney also performed a contribution analysis in which Salomon Smith Barney compared the estimated percentage of selected operational metrics which Equinix would contribute to the combined company relative to the estimated equity percentage ownership in the combined company of current holders of our common stock. Each of these analyses are more fully described below.

*Discounted Cash Flow Analyses*

*Standalone.* Salomon Smith Barney performed a discounted cash flow analysis of Equinix to calculate the estimated present value of the unlevered, after-tax free cash flows that Equinix could generate over calendar years 2003 through 2006 on a standalone basis. Estimated financial data for Equinix were based on internal estimates of and discussions with our management assuming a hypothetical funding scenario consisting of a \$50.0 million investment for a 45% equity interest in Equinix, a \$50.0 million reduction in the aggregate principal amount outstanding under our credit facility in exchange for \$10.0 million in cash and a 22.5% equity interest in Equinix and an exchange of all of our outstanding senior notes for a 27.5% equity interest in Equinix. Salomon Smith Barney calculated a range of estimated future perpetual cash flows by applying perpetuity growth rates ranging from 0.75% to 2.25% to Equinix's calendar year 2006 estimated free cash flow. The present value of cash flows was calculated using discount rates ranging from 16.0% to 18.0%.

*Pro Forma.* Salomon Smith Barney also performed a discounted cash flow analysis of Equinix to calculate the estimated present value of the pro forma, unlevered, after-tax free cash flows that Equinix could generate over fiscal years 2003 through 2006 after giving effect to the transactions. Estimated financial data for Equinix were based on internal estimates of and discussions with our management assuming payment in kind of interest accruing through maturity on all outstanding Series A-1 convertible secured notes. Salomon Smith Barney calculated a range of estimated future perpetual cash flows by applying perpetuity growth rates ranging from

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1.25% to 2.75% to Equinix's calendar year 2006 estimated free cash flow. The present value of cash flows was calculated using discount rates ranging from 16.0% to 18.0%.

The standalone and pro forma discounted cash flow analyses described above indicated the following estimated implied per share equity reference range for Equinix on a standalone basis, as compared to the estimated implied per share equity reference range for Equinix after giving effect to the transactions:

<b>Estimated Implied Per Share Equity Reference Range for Equinix Standalone</b>	<b>Estimated Implied Per Share Equity Reference Range for Equinix Pro Forma</b>
\$0.18 to \$0.23	\$0.61 to \$0.82

*Bankruptcy Exit Precedents Analysis*

Salomon Smith Barney reviewed exiting firm values and implied firm value multiples in five selected transactions involving companies in the web hosting industry that either were sold or recapitalized through a bankruptcy process. Salomon Smith Barney reviewed firm values in the selected transactions as a multiple of latest fiscal quarter annualized and latest 12 months estimated revenue. All multiples for the selected transactions were based on latest publicly available information for each target company prior to bankruptcy. Estimated financial data for Equinix were based on internal estimates of and discussions with our management. Salomon Smith Barney applied ranges of selected multiples of latest fiscal quarter annualized and latest 12 months estimated revenue derived from the selected transactions to corresponding data of us as of June 30, 2002 to calculate an estimated implied firm value range for Equinix. Equinix's net debt was then deducted in order to derive an implied equity reference range for Equinix. Given that Equinix's net debt exceeded the range of firm values calculated for Equinix (regardless of whether the face value or estimated market value of Equinix's outstanding indebtedness was used), this analysis indicated that the estimated implied equity reference range for Equinix was not meaningful. Salomon Smith Barney also noted that the percentage of the aggregate consideration received by, or percentage ownership in the recapitalized companies of, holders of common stock in the selected transactions ranged from approximately 0% to 10%.

*Contribution Analysis*

Salomon Smith Barney reviewed the relative contributions of Equinix, i-STT and Pihana to estimated calendar years 2002, 2003 and 2004 revenue and earnings before interest, taxes, depreciation and amortization, commonly referred to as EBITDA, of the combined company as adjusted for each entity's net debt contribution. Estimated data for Equinix, i-STT and Pihana were based on internal estimates of and discussions with the management of Equinix, i-STT and Pihana, reflecting, in the case of their net debt contributions, the market value of Equinix senior notes and the \$30.0 million investment by STT Communications in the financing. Salomon Smith Barney then compared Equinix's percentage contributions of estimated calendar years 2002, 2003 and 2004 revenue and EBITDA to the combined company relative to the estimated equity percentage ownership in the combined company of current holders of our common stock after giving effect to the transactions assuming payment in kind of interest accruing through maturity on all outstanding Series A-1 convertible secured notes. This analysis indicated the following estimated implied contribution percentage reference range for Equinix, as compared to the estimated equity percentage ownership of current holders of our common stock in the combined company after giving effect to the transactions assuming payment in kind of interest accruing through maturity on all outstanding Series A-1 convertible secured notes:

<b>Estimated Implied Percentage Contribution Reference Range for Equinix</b>	<b>Estimated Pro Forma Equity Percentage Ownership of Holders of Equinix Common Stock</b>
13.7% to 24.5%	18.7%



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*Other Factors*

In rendering its opinion, Salomon Smith Barney also reviewed and considered other factors, including:

historical trading prices and trading volumes for our common stock during the 12-month period ended September 27, 2002;

a comparison of selected operational metrics of Equinix and the following selected companies in the web hosting industry: Digex, Incorporated, Genuity Inc., Internap Network Services Corporation, NaviSite, Inc. and SAVVIS Communications Corporation;

Equinix's estimated monthly cash balance during the period beginning March 2002 and ending December 2004, and Equinix's projected monthly operating free cash flow relative to its cash obligations for debt servicing during the period beginning March 2003 and ending December 2004, in each case before and after giving effect to the transactions based on internal estimates of our management; and

a comparison of Equinix's capital structure before and after giving effect to the transactions.

*Miscellaneous*

In addition to acting as our financial advisor in connection with the proposed combination, Salomon Smith Barney also has provided services to us in connection with the proposed financing. Under the terms of its engagement, we have agreed to pay Salomon Smith Barney for its services upon completion of the combination and the financing an aggregate fee that is currently estimated to be approximately \$3.5 million. We also have agreed to reimburse Salomon Smith Barney for reasonable travel and other expenses incurred by Salomon Smith Barney in performing its services, including reasonable fees and expenses of its legal counsel, and to indemnify Salomon Smith Barney and related persons against liabilities, including liabilities under the federal securities laws, arising out of its engagement.

In the ordinary course of business, Salomon Smith Barney and its affiliates may actively trade or hold the securities of Equinix and affiliates of STT Communications for their own account or for the account of customers and, accordingly, may at any time hold a long or short position in those securities. One of Salomon Smith Barney's affiliates engaged in the commercial lending business is a significant creditor under our credit facility which is proposed to be amended in connection with the transactions, for which amendment its affiliate will receive an amendment fee. Salomon Smith Barney also acted as joint book-running lead arranger, and one of Salomon Smith Barney's affiliates is the administrative agent, for the credit facility, for which services Salomon Smith Barney and its affiliate received, and will receive, customary fees. Salomon Smith Barney and its affiliates in the past have provided services to us unrelated to the proposed transactions, including having acted as lead initial purchaser for the \$200.0 million offering of our senior notes in December 1999 and as co-lead managing underwriter for the initial public offering of Equinix common stock in August 2000, for which services Salomon Smith Barney and its affiliates received compensation. Salomon Smith Barney and its affiliates also provided services to affiliates of STT Communications unrelated to the proposed transactions, for which services Salomon Smith Barney and its affiliates have received compensation. In addition, Salomon Smith Barney and its affiliates, including Citigroup Inc. and its affiliates, may maintain relationships with Equinix, Pihana, STT Communications and their respective affiliates.

Salomon Smith Barney is an internationally recognized investment banking firm and was selected by us based on its reputation, experience and familiarity with us and our businesses. Salomon Smith Barney regularly engages in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive bids, secondary distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

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**Interests of Our Directors and Executive Officers**

When considering the recommendation of our board of directors that stockholders approve the issuance of shares of common stock in the combination, you should be aware that some of our directors and executive officers have interests in these transactions that are different from, or are in addition to, your interests. Our board of directors was aware of these potential conflicts and considered them. These include:

*Stock Options.* Immediately following the closing, the combined company will issue options to its employees (including two directors who are employees) which represent in the aggregate approximately 5-8% of our capitalization following the closing, including significant grants to the combined company's management team, most of whom are members of our current management team.

*Directors.* Up to five of our current directors may remain on our board of directors following the closing. See Governance of the Combined Company beginning on page 89.

*Indemnification of Directors and Officers.* Our executive officers and directors have customary rights to indemnification against losses incurred as a result of action or omission occurring prior to the closing. In addition, our executive officers and directors have customary indemnification agreements that provide for additional indemnification.

As a result, these directors and executive officers could be more likely to vote in favor of recommending the issuance of shares of common stock in the combination, the financing and the senior note exchange than if they did not hold these interests.

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**THE COMBINATION**

**General**

The combination is the purchase by one of our indirect wholly-owned subsidiaries of all of the outstanding stock of i-STT from STT Communications and the merger of one of our subsidiaries with Pihana. Both of these transactions are described in more detail below. The combination agreement governs the terms of both the i-STT stock purchase and the Pihana merger.

**The Pihana Merger**

In the acquisition of Pihana, Eagle Panther Acquisition Corp., a Delaware corporation and our indirect wholly-owned subsidiary will merge with and into Pihana through a merger. Following the Pihana merger, Pihana will become a wholly-owned indirect subsidiary of us. See *The Combination The Pihana Merger Determination of the Pihana Merger Consideration* beginning on page 55.

***Determination of the Pihana Merger Consideration***

*In General.* At the closing of the combination, we will issue to Pihana's preferred stockholders and certain members of Pihana's senior management shares of our common stock representing up to 22.5% (subject to adjustment as described below) of our modified fully diluted share amount (as described below) and \$10,000 in exchange for all of the outstanding preferred shares of Pihana. Pihana's common stock has no right, under Pihana's organization documents, to any of the merger consideration.

Pihana's warrants will be converted into warrants to purchase our common stock. However, we will not assume any outstanding options to purchase Pihana stock.

*Modified Fully Diluted Share Amount for Consideration Calculation.* For the purpose of determining the combination consideration, our modified fully diluted share amount means all shares of our common stock outstanding, including shares of our common stock to be issued in the senior note exchange and the combination, and all outstanding warrants and options to purchase our common stock with an exercise price equal to or less than \$2.00 (after giving effect to any anti-dilution adjustments triggered by the combination and as adjusted for the assumed cashless exercise of those options and warrants).

*Adjustment to Merger Consideration.* The aggregate number of shares to be issued in the Pihana merger is subject to adjustment based upon the cash balance of Pihana at the opening of business, without giving effect to the combination, on the day of the closing of the combination. For this purpose, the Pihana cash balance includes not only Pihana and its subsidiaries' cash and cash equivalents, but also includes collectible tax receivables, prepaid restructuring costs and expenses and a pre-determined amount of employment-related payments and advisors' fees. Deducted from the Pihana cash balance will be any non-payment of a pre-determined amount of capital expenditures, liabilities to be incurred after the closing of the combination in connection with arrangements to terminate or amend Pihana's office lease in Singapore, its office lease in Honolulu, Hawaii and part of its data center lease in Los Angeles, California, a decrease in Pihana working capital from Pihana's \$5.06 million deficit at June 30, 2002 and any cash received pursuant to the exercise of Pihana options or warrants.

The maximum percentage of our modified fully diluted share amount that is issuable in the Pihana merger is 22.5% of our modified fully diluted share amount (as described above) if the Pihana cash balance at the closing of the combination is \$28.0 million or greater (assuming the closing of the combination occurs on or before December 31, 2002, that dollar amount will be adjusted if the closing of the combination occurs at a later date). The minimum percentage of our modified fully diluted share amount that is issuable in the Pihana merger is 16% of our modified fully diluted share amount if the Pihana cash balance at the closing of the combination is \$23.0 million (assuming the closing of the combination occurs on or before December 31, 2002, that dollar

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amount will be adjusted if the closing of the combination occurs at a later date). The number of shares to be issued in the Pihana merger will be based upon a sliding scale between 16% and 22.5% of our modified fully diluted share amount based on a Pihana closing cash balance of between \$23.0 million and \$28.0 million, respectively. In addition, a downward adjustment to the Pihana merger consideration will result in a corresponding increase in the percentage of shares in the combined company held by our existing stockholders and STT Communications following the combination. Our stockholders will receive the exclusive benefit of a downward Pihana merger consideration adjustment that results from a Pihana closing cash balance of less than \$28.0 million but equal to or greater than \$26.0 million. If the Pihana closing cash balance is less than \$26.0 million but greater than or equal to \$23.0 million the benefit of the adjustment will be shared pro rata by our stockholders and STT Communications. The following table sets forth the respective percentage ownership of our pre-closing stockholders, STT Communications and the former Pihana stockholders based on the Pihana closing cash balance.

<b>Pihana Cash Balance (in millions)</b>	<b>Pihana Aggregate Merger Consideration*</b>	<b>i-STT Stock Purchase Consideration*</b>	<b>Our Post- Combination Shares*</b>
\$23.0	16.00%	28.88%	55.13%
\$24.0	17.33%	28.42%	54.25%
\$25.0	18.67%	27.96%	53.38%
\$26.0	20.00%	27.50%	52.50%
\$27.0	21.25%	27.50%	51.25%
\$28.0 or greater	22.50%	27.50%	50.00%

\* Percentages correspond to a percentage of our modified fully diluted share amount as of the closing of the combination without taking into account shares issuable pursuant to securities issued in the financing.

A Pihana cash balance of less than \$23.0 million represents the failure of a closing condition, but is waivable at our option and at the option of STT Communications. See [Summary of the Combination Agreement Closing Conditions](#) beginning on page 68.

In addition to the potential downward adjustment to the merger consideration based on the Pihana cash balance at the closing of the combination, the Pihana merger consideration may also be upwardly adjusted based on our working capital balance and i-STT's working capital balance at the opening of business, without giving effect to the combination, on the day of the closing of the combination. For this purpose, our working capital is defined as our and our subsidiaries' consolidated current assets (including cash, cash equivalents and short-term investments, but not including any cash received pursuant to the exercise of our options or warrants) minus our current liabilities (not including the current portion of long-term liabilities, short-term indebtedness or accrued interest). See [The i-STT Stock Purchase Determination of the i-STT Stock Purchase Consideration Adjustment to Stock Purchase Consideration](#) beginning on page 58.

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Our target working capital balance at the closing is \$644,000 or greater (assuming the closing of the combination occurs on or before December 31, 2002, that amount will be adjusted if the closing of the combination occurs at a later date). If our working capital balance at the opening of business, without giving effect to the combination, on the day of the closing of the combination of less than \$644,000 but no greater than a working capital deficit of (\$2,688,000) will be a downward adjustment of our post-combination shares and a corresponding upward adjustment of the Pihana merger consideration and the i-STT stock purchase consideration. The amount of this downward adjustment will be determined by dividing (a) the difference of (1) \$644,000 and (2) our working capital balance at the closing of the combination, to the extent the working capital balance at the opening of business, without giving affect to the combination, on the day of the closing of the combination is less than \$644,000, by (b) \$1.53. For example, assuming a Pihana cash balance of \$28.0 million, the Pihana merger consideration and the i-STT stock purchase consideration will adjust as follows based on our following illustrative working capital balances:

**Assuming \$28.0 Million in Cash from Pihana**

Our Working Capital/(Deficit) (in thousands)	Percent Ownership upon closing of Combination*		
	Pihana Aggregate Merger Consideration	i-STT Stock Purchase Consideration	Our Post- Combination Shares
\$644	22.50%	27.50%	50.00%
\$144	22.52%	27.53%	49.95%
(\$356)	22.54%	27.55%	49.90%
(\$856)	22.57%	27.58%	49.86%
(\$1,356)	22.59%	27.61%	49.81%
(\$1,856)	22.61%	27.63%	49.76%
(\$2,356)	22.63%	27.66%	49.71%
(\$2,688)	22.64%	27.68%	49.68%

\* Percentages correspond to a percentage of our modified fully diluted share amount as of the closing of the combination without taking into account shares issuable pursuant to securities issued in the financing.

Assuming a Pihana cash balance of \$23.0 million, the Pihana merger consideration and the stock purchase consideration will adjust as follows based on our following illustrative working capital balances:

**Assuming \$23.0 Million in Cash from Pihana**

Our Working Capital/(Deficit) (in thousands)	Percent Ownership upon closing of Combination*		
	Pihana Aggregate Merger Consideration	i-STT Stock Purchase Consideration	Our Post- Combination Shares
\$644	16.00%	28.88%	55.13%
\$144	16.02%	28.91%	55.08%
(\$356)	16.03%	28.94%	55.03%
(\$856)	16.05%	28.97%	54.98%
(\$1,356)	16.07%	29.00%	54.93%
(\$1,856)	16.09%	29.03%	54.88%
(\$2,356)	16.11%	29.07%	54.83%
(\$2,688)	16.12%	29.09%	54.80%

\* Percentages correspond to a percentage of our modified fully diluted share amount as of the closing of the combination without taking into account shares issuable pursuant to securities issued in the financing.

An Equinix working capital deficit greater than (\$2,688,000) represents the failure of a closing condition, but is waivable at the option of Pihana and at the option of STT Communications. Please see Summary of the Combination Agreement Closing Conditions beginning on page 68.

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**The i-STT Stock Purchase**

In the i-STT stock purchase, Eagle Jaguar Acquisition Corp., a Delaware corporation and our indirect wholly-owned subsidiary, will purchase all of i-STT's issued and outstanding stock from STT Communications. Immediately following the stock purchase, i-STT will be a wholly-owned subsidiary of Eagle Jaguar Acquisition Corp. and our indirect wholly-owned subsidiary. See *The Combination* *The i-STT Stock Purchase* *Determination of the i-STT Stock Purchase Consideration* beginning on page 58.

***Determination of the i-STT Stock Purchase Consideration***

*In General.* At the closing of the combination, we will issue to STT Communications a number of shares representing up to 27.5% (subject to adjustment as described below) of our modified fully diluted share amount and \$10,000 in exchange for all of the outstanding shares of i-STT. The shares issued will be a combination of our common stock and our Series A preferred stock. The number of shares of our common stock issued will be equal to 10.1% of our modified fully diluted share amount. The remaining shares of our capital stock to be issued to STT Communications will be shares of our Series A preferred stock. We will not assume any options or warrants to purchase i-STT stock.

*Adjustment to Stock Purchase Consideration.* The number of shares to be issued to STT Communications is subject to adjustment based upon the working capital balance of i-STT at the time of the closing of the combination. For this purpose, i-STT's working capital is defined as i-STT and i-STT's subsidiaries' consolidated current assets (including cash, cash equivalents and short-term investments) minus their current liabilities (not including the current portion of long-term liabilities, short-term indebtedness or accrued interest).

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The maximum number of shares issuable to STT Communications is 27.5% of our modified fully diluted share amount if the i-STT working capital deficit at the opening of business, without giving effect to the combination, on the day of the closing of the combination is (\$2,206,000) or less (assuming the closing of the combination occurs on or before December 31, 2002, that dollar amount will be adjusted if the closing of the combination occurs at a later date). The minimum number of shares issuable to i-STT is 27.2% of our modified fully diluted share amount if the i-STT working capital deficit balance at closing is (\$4,206,000) (assuming the closing of the combination occurs on or before December 31, 2002, the dollar amount will be adjusted if the closing of the combination occurs at a later date). An i-STT working capital deficit balance at the closing of the combination of less than (\$2,206,000) but greater than (\$4,206,000) will result in a downward adjustment of the stock purchase consideration and a corresponding upward adjustment of the Pihana merger consideration and the percentage of shares held by our current stockholders. The amount of the i-STT downward adjustment will be determined by dividing (a) the difference of (1) (\$2,206,000) and (2) the i-STT working capital balance at the closing of the combination, to the extent the working capital deficit balance at the closing of the combination is less than (\$2,206,000), by (b) \$1.53. For example, assuming a Pihana cash balance of \$28.0 million, the Pihana merger consideration and our post-combination shares will adjust as follows based on the following illustrative i-STT working capital balances:

**Assuming \$28.0 Million in Cash from Pihana**

i-STT Working Capital/(Deficit) (in thousands)	Percent Ownership upon closing of Combination*		
	Pihana Aggregate Merger Consideration	i-STT Stock Purchase Consideration	Our Post- Combination Shares
(\$2,206)	22.50%	27.50%	50.00%
(\$2,406)	22.51%	27.47%	50.02%
(\$2,606)	22.52%	27.44%	50.04%
(\$2,806)	22.53%	27.42%	50.06%
(\$3,006)	22.53%	27.39%	50.08%
(\$3,206)	22.54%	27.36%	50.10%
(\$3,406)	22.55%	27.33%	50.12%
(\$3,606)	22.56%	27.30%	50.13%
(\$3,806)	22.57%	27.28%	50.15%
(\$4,006)	22.58%	27.25%	50.17%
(\$4,206)	22.59%	27.22%	50.19%

\* Percentages correspond to a percentage of our modified fully diluted share amount as of the closing of the combination without taking into account shares issuable pursuant to securities issued in the financing.

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Assuming a Pihana cash balance of \$23.0 million, the Pihana merger consideration and our post-combination shares will adjust as follows based on the following illustrative i-STT working capital balances:

**Assuming \$23.0 Million in Cash from Pihana**

i-STT Working Capital/(Deficit) (in thousands)	Percent Ownership upon closing of the Combination*		
	Pihana Aggregate Merger Consideration	i-STT Stock Purchase Consideration	Our Post- Combination Shares
(\$2,206)	16.00%	28.87%	55.13%
(\$2,406)	16.01%	28.84%	55.15%
(\$2,606)	16.01%	28.81%	55.17%
(\$2,806)	16.02%	28.78%	55.20%
(\$3,006)	16.03%	28.75%	55.22%
(\$3,206)	16.03%	28.72%	55.25%
(\$3,406)	16.04%	28.69%	55.27%
(\$3,606)	16.05%	28.66%	55.29%
(\$3,806)	16.06%	28.63%	55.32%
(\$4,006)	16.06%	28.59%	55.34%
(\$4,206)	16.07%	28.56%	55.37%

\* Percentages correspond to a percentage of our modified fully diluted share amount as of the closing of the combination without taking into account shares issuable pursuant to securities issued in the financing.

An i-STT working capital deficit balance of less than (\$4,206,000) is the failure of a condition to the closing of the combination, but is waivable at the option of Pihana and at our option. Please see [Summary of the Combination Agreement Closing Conditions](#) beginning on page 68.

In addition to the potential downward adjustment to the i-STT stock purchase consideration based on the i-STT working capital balance at the closing of the combination, the stock purchase consideration may also be upwardly adjusted based on our working capital balance at the closing of the combination and Pihana's cash balance at the closing of the combination. See [The Combination](#) beginning on page 55.

**Completion and Effective Time of the Combination**

The combination will close when all of the closing conditions in the combination agreement are satisfied or waived, including approval of the issuance of shares in connection with combination agreement, the financing and the senior note exchange. The combination will become effective upon the filing of the certificate of merger with the Secretary of State of the State of Delaware. Concurrent with the filing of the certificate of merger, STT Communications will sell to Eagle i-STT Acquisition Corp. and Eagle i-STT Acquisition Corp. will purchase, all outstanding shares of the capital stock of i-STT in exchange for shares of our common stock.

**Material United States Federal Income Tax Considerations**

We do not expect to recognize any taxable income or loss as a result of consummating the combination. It is likely, however, that the issuances of shares of our common stock and shares of our preferred stock in connection with the combination as well as in connection with the senior note exchange and the financing, each as described in this proxy statement, will cause us to experience an ownership change. See [The Senior Note Exchange Material Federal and State Income Tax Consequences of the Senior Note Exchange](#) beginning on page 84, for a discussion of the material federal income tax consequences of such an ownership change.



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**SUMMARY OF THE COMBINATION AGREEMENT**

*The following briefly summarizes the material provisions of the combination agreement, a copy of which is attached as Annex A to this proxy statement and is incorporated by reference into this summary. The following is not a complete description of all provisions of the combination agreement and is qualified in its entirety by reference to the combination agreement. You are encouraged to read the combination agreement in its entirety for a more complete description of the terms and conditions of the combination.*

**Representations and Warranties**

The combination agreement contains representations and warranties of Pihana, STT Communications, i-STT, us, Eagle Jaguar Acquisition Corp. and Eagle Panther Acquisition Corp. The most significant of these relate to:

- due organization, valid existence, qualification to do business and good standing;
- organizational documents;
- subsidiaries;
- capitalization;
- authority relative to the merger and the combination agreement;
- required consents, approvals and government filings;
- possession of and compliance with permits required to conduct their businesses;
- the accuracy and completeness of their financial statements and the absence of undisclosed liabilities in their businesses;
- the absence of changes in their respective businesses;
- litigation, arbitration, or judgments pending or threatened against them or to which they are a party;
- employee benefit plans, labor agreements, employee compensation and compliance with the Employee Retirement Income Security Act of 1974, or ERISA;
- the validity, binding nature and absence of material defaults with respect to their respective material contracts;
- compliance with laws related to environmental matters;
- the right to use, and the absence of infringement of, intellectual property;
- compliance with laws related to taxes;
- title to property and absence of liens and encumbrances;
- no owned real property;
- transactions with their respective affiliates;
- insurance;
- restrictions on certain business activities;
- broker's fees;
- state takeover statutes;

customers and suppliers;

the validity of current accounts receivable;

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no powers of attorney;

suspension of negotiation of acquisitions; and

no misstatements.

Pihana, STT Communications and i-STT have also made representations and warranties relating to:

bank accounts; and

customer warranties.

STT Communications, i-STT and we have also made representations and warranties relating to:

stockholder votes required to approve the transactions.

STT Communications and i-STT have also made representations and warranties relating to:

inter-company obligations.

Us, Eagle Jaguar Acquisition Corp. and Eagle Panther Acquisition Corp. have also made representations and warranties relating to:

the accuracy and completeness of documents and reports that we filed with the SEC;

corporate books and records;

the absence of operations of Eagle Jaguar Acquisition Corp. and Eagle Panther Acquisition Corp.;

the valid issuance of the shares of common stock and preferred stock; and

our obligations and our subsidiaries' obligations in Europe.

The representations and warranties in the combination agreement are lengthy and detailed and not easily summarized. You are urged to read carefully Article III-A of the combination agreement entitled "Representations and Warranties of Pihana," Article III-B of the combination agreement entitled "Representations and Warranties of STT Communications and i-STT" and Article IV of the combination agreement entitled "Representations and Warranties of Equinix, Merger Sub and SP Sub."

The representations and warranties made by Pihana, STT Communications, i-STT, us, Eagle Jaguar Acquisition Corp. and Eagle Panther Acquisition Corp. contained in the combination agreement will survive for one year after the completion of the merger.

**Conduct of Business Pending the Merger**

We, i-STT and Pihana are subject to restrictions on our respective conduct and operations until the combination is completed. In the combination agreement, i-STT and Pihana agreed that, prior to the effective time, each will:

carry on its business only in the regular and ordinary course and in substantially the same manner as previously conducted;

pay its debts and taxes when due;

perform other obligations when due; and

preserve its present business organization, keep available the services of its present officers and key employees and consultants and preserve its business relationships with all third parties.

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*Restrictions on Pihana*

Pihana also agreed that, unless both we and STT Communications consent in writing, it will not do any of the following until the completion of the combination:

amend or change its certificate of incorporation or bylaws;

issue any shares of capital stock or any other rights to acquire shares of such capital stock except for agreements to sell such stock outstanding on the date of the combination agreement;

sell or otherwise dispose of any of its properties or assets, except in the ordinary course of business;

declare or pay any dividend or other distribution with respect to any capital stock;

split or reclassify any capital stock, issue other securities in substitution for shares of any capital stock, or purchase any shares of capital stock except from former employees, directors and consultants that have agreements providing for the repurchase of shares in the case of any termination of service;

merge with or acquire the stock or assets of any corporation, partnership, or other business organization;

initiate or settle any legal proceeding;

incur any debt, issue any debt securities or otherwise become responsible for the obligations of any person, or make any loans or advances;

authorize any capital expenditure which causes Pihana's aggregate capital expenditures between July 1, 2002 and December 31, 2002 to exceed \$1.75 million and after December 31, 2002, authorize any capital expenditure out of the ordinary course of business;

enter into any lease or contract for the purchase or sale of any real property;

waive or release any material right or claim;

increase the compensation to officers or employees, grant any severance or enter into any severance agreement with any directors, officers or employees, or enter into or amend any benefit plan other than those amendments required under ERISA;

extend any offers of employment to any potential employees, consultants or independent contractors or voluntarily terminate any existing key employee or executive officer;

amend or terminate any material contract, or enter into any material contract;

enter into any agreement that, if fully performed, would not be permitted by the foregoing;

other than in the ordinary course of business consistent with past practice, enter into any agreements that may not be cancelled without penalties upon notice of 30 days or less;

pay any liability, except in the ordinary course of business;

change any accounting policies, except as required by a governmental entity or a change in GAAP;

make or change any tax or accounting election, or take any other action that would increase the tax liability of Pihana, any subsidiary of Pihana or the combined company;

sell or otherwise dispose of any material intellectual property of Pihana; grant any license with respect to any material intellectual property of Pihana, other than a license of software granted to customers of Pihana; develop any intellectual property jointly with any third party; or disclose any confidential Pihana intellectual property without the protection of a confidentiality or non-disclosure covenant;

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make any bonus or severance payments to any officers or employees other than pursuant to Pihana employee benefit plans;

fail to maintain equipment and other assets in good working condition and repair, subject only to ordinary wear and tear;

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permit any insurance policy naming Pihana as a beneficiary to be terminated without notice to the other parties;

take any action outside the ordinary course of business that would result in a material change to Pihana's working capital;

grant any retention bonuses to any employee payable after December 31, 2002; or

take any actions which would reasonably be expected to cause a material adverse effect to Pihana. A material adverse effect is any event, change, circumstance or effect that is, or would be reasonably likely to have, a material adverse effect on the business of Pihana and its subsidiaries except for (i) any changes in general economic or business conditions of the markets in which Pihana and its subsidiaries operate that do not disproportionately impact Pihana and its subsidiaries, or (ii) any changes or events affecting the industry in which Pihana operates that do not disproportionately impact Pihana and its subsidiaries.

*Restrictions on i-STT*

i-STT also agreed that, unless both we and Pihana consent in writing, it will not do any of the following until the completion of the combination:

amend or change its articles of association or memorandum of association;

issue any shares of capital stock or any other rights to acquire shares of such capital stock, except for the conversion of an outstanding loan from STT Communications;

sell or otherwise dispose of any of its properties or assets, except in the ordinary course of business;

declare or pay any dividend or other distribution with respect to any capital stock;

split or reclassify any capital stock, issue other securities in substitution for shares of any capital stock, or purchase any shares of capital stock except from former employees, directors and consultants that have agreements providing for the repurchase of shares in the case of any termination of service;

merge with or acquire the stock or assets of any corporation, partnership, or other business organization;

incur any debt, issue any debt securities or otherwise become responsible for the obligations of any person, or make any loans or advances;

authorize any capital expenditure not included in i-STT's capital budget;

enter into any lease or contract for the purchase or sale of any real property;

increase the compensation to officers, grant any severance or enter into any severance agreement with any directors or officers, or enter into or amend any benefit plan other than those amendments required by law;

extend any offers of employment to any potential executive officers or voluntarily terminate any existing key employee or executive officer;

amend or terminate any material contract, or enter into any contract that would be a material contract;

enter into any agreement that, if fully performed, would not be permitted by the foregoing;

change any i-STT accounting policies, except for any necessary reconciliation with GAAP, and except as required by a governmental entity or a change in GAAP;

make or change any tax or accounting election, or change any material tax related policy;

sell or otherwise dispose of any material intellectual property of i-STT; grant any license with respect to any material intellectual property of i-STT, other than a license of software granted to customers of i-STT; develop any intellectual property jointly with any third party; or disclose any confidential i-STT intellectual property without the protection of a confidentiality or non-disclosure covenant;



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make any bonus or severance payments to any executive officers other than pursuant to i-STT employee benefit plans;

fail to maintain equipment and other assets in good working condition and repair, subject only to ordinary wear and tear;

permit any insurance policy naming i-STT as a beneficiary to be terminated without notice to Equinix;

take any action outside the ordinary course of business that would result in a material change to i-STT's working capital; or

take any actions which would reasonably be expected to cause a material adverse effect to i-STT. A material adverse effect is any event, change, circumstance or effect that is, or would be reasonably likely to have, a material adverse effect on the business of i-STT and its subsidiaries, except for (i) any changes in general economic or business conditions of the markets in which i-STT and its subsidiaries operate that do not disproportionately impact i-STT and its subsidiaries, or (ii) any changes or events affecting the industry in which i-STT operates that do not disproportionately impact i-STT and its subsidiaries.

*Restrictions on Us*

We also agreed that, unless both Pihana and i-STT consent in writing, we will not do any of the following until the completion of the combination:

declare or pay any dividend or other distribution with respect to any capital stock;

allow any amendments to its certificate of incorporation or bylaws, except as contemplated by the combination agreement;

issue any shares of capital stock or any other rights to acquire shares of such capital stock except for agreements to sell such stock outstanding on the date of the combination agreement;

change any of our accounting policies, except as required by a governmental entity or a change in GAAP;

sell or otherwise dispose of any of our properties or assets, except in the ordinary course of business;

except as contemplated by the combination agreement, split or reclassify any capital stock, issue other securities in substitution for shares of any capital stock, or purchase any shares of capital stock except from former employees, directors and consultants that have agreements providing for the repurchase of shares in the case of any termination of service;

merge with or acquire the stock or assets of any corporation, partnership, or other business organization;

incur any debt, issue any debt securities or otherwise become responsible for the obligations of any person, or make any loans or advances;

enter into any lease or contract for the purchase or sale of any real property;

increase the compensation to officers, grant any severance or enter into any severance agreement with any directors or officers, or enter into or amend any benefit plan other than those amendments required by ERISA;

extend any offers of employment to any potential executive officers or voluntarily terminate any existing key employee or executive officer, except pursuant to our employee benefit plans;

enter into any agreement that, if fully performed, would not be permitted by the foregoing;

make any bonus or severance payments to any executive officers other than as required by our employee benefit plans;



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authorize any capital expenditure not included in our capital budget;

take any action outside the ordinary course of business that would result in a material change to our working capital; or

take any actions which would reasonably be expected to cause a material adverse effect to Equinix. A material adverse effect is any event, change, circumstance or effect that is, or would be reasonably likely to have, a material adverse effect on our subsidiaries business, except for (a) any changes in general economic or business conditions of the markets in which we and our subsidiaries operate that do not disproportionately impact us and our subsidiaries, (b) any changes or events affecting the industry in which we and our subsidiaries operate that do not disproportionately impact us and our subsidiaries, (c) in and of itself, any decline in the trading price of our common stock, (d) in and of itself, any adverse change in the United States securities markets, or (e) in and of itself, our failure to meet the revenue or earnings predictions of equity analysts as reflected in the estimates prepared by an independent equity analyst, or any other revenue or earnings estimate by an independent person, or any other revenue or earnings prediction or expectation prepared by any independent equity analyst, for any period ending (or for which earnings are released) on or after the date of the combination agreement and prior to closing, except to the extent such predictions, estimates or expectations were derived from guidance we provided.

Each of the parties has agreed to give prompt written notice to each other party after learning of any claim initiated by or against that party, including claims initiated against that party's officers, directors, employees or stockholders.

Each of the parties has also agreed to give prompt notice to each other party when (a) an event occurs that would cause a representation or warranty contained in the combination agreement to be untrue or inaccurate, and (b) a party fails or is unable to comply with a covenant, condition or other agreement contained in the combination agreement.

**Limitations on Considering Other Takeover Proposals**

Until the combination is completed, we, Pihana, i-STT and STT Communications have agreed not to:

directly or indirectly solicit, initiate or encourage the making of a proposal likely to lead to a competing transaction, as defined below;

enter into or maintain discussions or negotiations regarding a competing transaction;

agree to endorse a competing transaction; or

authorize or permit any representative to take any such action.

A competing transaction means any of the following involving us, Pihana or i-STT:

a merger, consolidation, share exchange, business combination or other similar transaction;

any sale, lease, exchange, mortgage, pledge, transfer or other disposition of 15% or more of the assets of our company and our subsidiaries, Pihana and its subsidiaries or i-STT and its subsidiaries;

a tender offer or exchange offer for, or any offer to purchase directly from us, Pihana or i-STT, 15% or more of the outstanding voting securities of our company, Pihana or i-STT;

any solicitation to oppose the approval of the combination agreement by our stockholders; or

any liquidation, dissolution, recapitalization or other significant corporate reorganization of our company, Pihana or i-STT.

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We, Pihana, i-STT and STT Communications must immediately notify the other parties upon receipt of any competing transaction or offer or any inquiry or contact with any person with respect to any competing transaction or offer and promptly deliver to the other party a copy of the competing transaction, offer, inquiry or contact and any other related written material that contains the principal terms of the competing transaction.

Despite the restrictions described above, we may furnish information to and enter into discussions or negotiations with any person who has made an unsolicited, written, bona fide proposal or offer regarding a competing transaction if our board of directors has:

reasonably concluded after consultation with its financial advisor and outside legal counsel that the proposal or offer constitutes a superior proposal, as defined below;

reasonably concluded, after consultation with its outside legal counsel, that failing to furnish the information or enter into discussions would be inconsistent with its fiduciary obligations to its stockholders under applicable law;

provided written notice to STT Communications and Pihana of its intent to furnish information or enter into discussions with the person making the superior proposal; and

obtained from the person making the superior proposal an executed confidentiality agreement on terms no less favorable to us than those contained in the non-disclosure agreement between these parties.

In the combination agreement, a superior proposal means an unsolicited written bona fide offer made by a third party to consummate a competing transaction (changing the 15% threshold above to 50%) on terms that our board of directors determines in good faith to be more favorable to our stockholders and/or debt holders, from a financial point of view, than the terms of the combination.

### **Additional Agreements**

*Market Standoff.* Holders of our common stock received in the combination have agreed not to transfer their shares of our common stock for a period of six months following the combination, except for transfers to their affiliates who agree to be bound by similar restrictions.

*Equinix's Board of Directors.* Our board of directors has agreed to take all actions necessary such that our board of directors will be constituted as set forth in the governance agreement.

*Employee Benefits.* We agreed to take such reasonable actions as are necessary to allow all employees of Pihana, i-STT and their respective subsidiaries to participate in our benefit programs or alternative benefit programs available to our employees.

*Indemnification of Pihana Officers and Directors.* We and the corporation surviving the Pihana merger have agreed to indemnify the officers and directors of Pihana for six years after the combination to the same extent that those officers and directors are presently indemnified through Pihana's certificate of incorporation, bylaws or agreements with those officers and directors.

*Indemnification of i-STT Officers and Directors.* We and i-STT have agreed to indemnify the officers and directors of i-STT for six years after the combination to the same extent that those officers and directors are presently indemnified through i-STT's certificate of incorporation, bylaws or agreements with those officers and directors.

*i-STT Name and Marks.* Following the combination, i-STT has agreed to assign all rights associated with the i-STT trademark and trade name to STT Communications but STT Communications will grant us a license to the mark for a reasonable transition period, not to exceed one year.

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*Nasdaq Listing.* We agreed to use all commercially reasonable efforts to ensure that our common stock remains listed on The Nasdaq National Market or The Nasdaq SmallCap Market.

*United States Real Property Interests.* We agreed to use all commercially reasonable efforts to ensure that our securities of received by STT Communications do not constitute United States real property interests within the meaning of section 897 of the Code.

*Release of Guarantees.* We have agreed to cooperate with STT Communications and use reasonable best efforts to obtain the release of STT Communications from guarantees of i-STT's obligations under i-STT's leases.

*Other Agreements.* The combination agreement contains other agreements of each party. The most significant are agreements by each party to:

provide to the other parties and their employees, officers, directors and other representatives, access to its books and records;

comply with respective obligations under confidentiality agreements between the parties;

refrain from issuing any press release or otherwise making any public statement regarding the combination or the combination agreement prior to obtaining the written consent of the other parties unless otherwise required under applicable law or the requirements of The Nadsaq National Market;

notify the other parties of any claim, suit, or other action initiated seeking to prohibit the consummation of the combination agreement; and

take all actions reasonably necessary to comply with legal requirements and obtain all consents and approvals necessary to complete the combination.

**Closing Conditions**

*Conditions to the Obligations of Each Party.* The respective obligations of each party to consummate the combination are subject to the satisfaction or waiver of the following conditions:

the approval of the combination agreement by the affirmative vote of (a) Pihana's stockholders and (b) our stockholders;

no governmental entity or court will have acted to prohibit the merger, stock purchase or combination;

there will not be pending any proceeding with a governmental entity (a) seeking to restrain or prohibit the consummation of any of the agreements related to the combination or seeking to obtain from us or Pihana any material damages or (b) seeking to prohibit or limit the ownership or operation by the combined company of any portion of i-STT's or Pihana businesses or assets;

we will have taken all corporate action such that our board of directors immediately after the closing will be constituted in accordance with the governance agreement and our bylaws, and senior management (including the head of the combined company's Asia/Pacific Region) will be constituted with the persons mutually agreed to by us and STT Communications;

no party will have voluntarily or involuntarily commenced any proceeding seeking bankruptcy protection;

our board of directors will have taken all necessary steps to effect the waiver of any anti-takeover restrictions applicable to the combination or to any transactions that may be undertaken at any time or from time to time following the close by STT Communications or its affiliates;

the following will be set to occur simultaneously with the closing of the combination: (a) the senior note exchange, (b) execution of an amendment to our credit facility, (c) the financing;

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the governance agreement will (a) have been executed by each party to that agreement and (b) be in full force and effect;

we, i-STT and Pihana's stockholders' representative will have entered into the escrow agreement;

shares of our common stock will be listed on either The Nasdaq National Market or The Nasdaq SmallCap Market; and

we and STT Communications will have agreed upon the terms of a mutually acceptable strategic plan related to the post-closing financial model and management structure of the combined company.

*Conditions to the Obligations of Us, Eagle Jaguar Acquisition Corp., Eagle Panther Acquisition Corp. and STT Communications to Consummate the Merger.* Our, Eagle Jaguar Acquisition Corp., Eagle Panther Acquisition Corp.'s and STT Communications' obligations to consummate the merger with Pihana are subject to the satisfaction or waiver of the following additional conditions:

each of the representations and warranties made by Pihana in the combination agreement will be true and correct with the same force and effect as if made on the closing of the combination;

no events will have occurred which have a material adverse effect on the business of Pihana;

Pihana will have performed or complied in all material respects with all agreements and covenants required by the combination agreement;

Pihana will have provided written confirmation of termination of its office lease in San Francisco;

Pihana will have received all authorizations, consents, orders and approvals (a) required by any governmental entity, (b) set forth in the combination agreement, or (c) that would prevent a material adverse effect on the business of Pihana;

no more than 3% of Pihana's stockholders, measured by voting power, will have exercised appraisal rights;

Pihana will have terminated employee benefit plans as we requested;

we and STT Communications will have received a certificate executed by the secretary of Pihana certifying: (a) Pihana's certificate of incorporation, (b) Pihana's bylaws, (c) the resolutions of Pihana's board of directors and (d) the action by Pihana's stockholders approving the combination agreement;

we and STT Communications will have received an estoppel certificate executed by the lessors of Pihana's data centers;

Pihana will provide us with a properly executed Foreign Investment in Real Property Tax Act notification letter;

Pihana will have provided evidence that all agreements relating to co-sale, voting, registration, first refusal, first offer, preemptive, board observation or information or operational rights covenants will have no substantive effect;

Pihana will have received resignations from each of its current directors;

Pihana's cash balance will equal or exceed the applicable amount set in the combination agreement;

Pihana's working capital will equal or exceed the applicable amount set in the combination agreement;

Pihana's total other liabilities will be less than the applicable amount set in the combination agreement;

Pihana's stock option plan will be terminated, and each outstanding Pihana option will have been exercised immediately prior to the closing of the combination or will have been terminated as a result of the combination;

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Pihana will provide evidence that it has properly withheld all applicable withholding taxes for any payments, forgiveness of indebtedness and any other value accruing to any employee who received, on or prior to the closing of the combination, and any amount that may be deemed a parachute payment;

Pihana will have divested itself of its Korean operations;

with respect to its Hawaiian operations, Pihana will have (a) effected a reduction in force, (b) terminated its headquarters lease on or prior to the 180<sup>th</sup> day following the closing of the combination, and (c) deducted from its cash and working capital balances all liabilities associated with that reduction in force and any net liabilities that will exist on or after the 181<sup>st</sup> day following the closing of the combination;

with respect to its Los Angeles operations, Pihana will have (a) effected a reduction in force, (b) terminated the lease for the second floor of its Los Angeles data center and (c) deducted from its cash and working capital balances all net liabilities associated with that reduction in force and lease option and termination; and

with respect to its Singapore operations, Pihana will have (a) effected a reduction in force, and (b) deducted from its cash and working capital balances all net liabilities associated with that reduction in force and sales office lease termination.

*Conditions to the Obligations of us, Eagle Jaguar Acquisition Corp., Eagle Panther Acquisition Corp. and Pihana to Consummate Stock Purchase.* Our, Eagle Jaguar Acquisition Corp. s, Eagle Panther Acquisition Corp. s and Pihana s obligations to consummate the stock purchase with STT Communications is subject to the satisfaction or waiver of the following additional conditions:

each of the representations and warranties made by STT Communication and i-STT in the combination agreement will be true and correct as if made on the closing of the combination;

no events will have occurred which have a material adverse effect on the business of i-STT;

i-STT will have performed or complied in all material respects with all agreements and covenants required by the combination agreement;

i-STT will have received all authorizations, consents, orders and approval (a) required by any governmental entity, (b) set forth in the combination agreement, or (c) that would prevent a material adverse effect on the business of i-STT;

We and STT Communications will have executed a mutually satisfactory transition services agreement under which, for a period of at least 180 days following the closing, STT Communications will provide to i-STT certain administrative services, and i-STT will provide STT Communications with administrative services, with all of the services to be reimbursed at cost plus 5%;

We and Pihana will have received a certificate executed by the secretary of i-STT certifying: (a) i-STT s articles of association, (b) i-STT s memorandum of association, (c) the resolutions of i-STT s board of directors and (d) the action by i-STT s shareholders approving the combination agreement;

i-STT will have received resignations from each of its current director;

i-STT s working capital will equal or exceed the applicable amount set in the combination agreement; and

i-STT s total other liabilities will be less then the applicable amount set in the combination agreement.

*Conditions to the Obligations of Pihana, i-STT and STT Communications.* The obligation of Pihana, i-STT and STT Communications to consummate the combination is subject to the satisfaction or waiver of the following additional conditions:

each of the representations and warranties made by us, Eagle Jaguar Acquisition Corp. and Eagle Panther Acquisition Corp. in the combination agreement will be true and correct as if made on the closing of the combination;

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no events will have occurred which have a material adverse effect on our business;

we, Eagle Jaguar Acquisition Corp. and Eagle Panther Acquisition Corp. will each have performed or complied in all material respects with all agreements and covenants required by the combination agreement on or prior to the closing of the combination;

we will have received all authorizations, consents, orders and approval (a) required by any governmental entity, (b) set forth in the combination agreement, or (c) that would prevent a material adverse effect on our business;

STT Communications and Pihana will have received a certificate executed by our secretary certifying: (a) our certificate of incorporation, (b) our bylaws, (c) the resolutions of our board of directors and (d) the action by Equinix's stockholders approving the combination agreement;

our working capital will equal or exceed the applicable amount set in the combination agreement;

our total other liabilities will be less than the applicable amount set in the combination agreement;

we will have modified the terms of its ground lease in San Jose, California;

neither we nor any of our subsidiaries will have (a) failed to pay when due any principal of or interest on or any other amount payable any outstanding debt in an individual principal amount of \$250,000 or more or with an aggregate principal amount of \$1.0 million or more, or (b) breached or defaulted with respect to any other material term of one or more items of outstanding debt in the individual or aggregate principal amounts referred to in above or any loan agreement, mortgage, indenture or other agreement relating to outstanding debt; and

we will have obtained and delivered to STT Communications a valuation of (a) all real property owned by us or our subsidiaries and (b) United States real property owned by Pihana and its subsidiaries, and the valuation will support a conclusion that as of the closing of the combination, after giving effect to the combination, the combined company will not be a United States real property holding corporation within the meaning of Section 897 of the Internal Revenue Code.

*Operation of Closing Conditions.* The closing conditions will operate as follows:

any party may waive one or more closing conditions, provided however that the minimum dollar amount of notes tendered in the senior note exchange may be waived on behalf of all parties only by two of the following three parties: (a) us, (b) STT Communications, and (c) Pihana;

the failure of any party to satisfy a closing condition will not relieve such party from its obligation to consummate the combination if the other parties have satisfied their closing conditions;

if one party elects not to consummate the combination because one or more of the closing conditions is not satisfied, the other parties may (but neither will be required to) consummate the combination, or any other transaction as they may mutually agree; and

if the closing conditions of any party or parties are not satisfied because of the failure of another party to satisfy their closing conditions, the other parties may elect to consummate the combination, or any other transaction as they may mutually agree.

**Termination**

The combination agreement may be terminated by one or more parties as follows:

by mutual written consent duly authorized by the boards of directors of each party;

by any party if the closing has not occurred on or before January 31, 2003; but if the closing of the combination has not occurred on or before January 31, 2003 because of the failure to obtain all regulatory approvals required to consummate the combination, the closing date will be extended for two

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successive 30 calendar day periods. The right to terminate the combination agreement on or after January 31, 2003 will not be available to any party whose failure to fulfill any obligation under the combination agreement has been the cause of the failure of the closing of the combination to occur on or before January 31, 2003;

by any party upon the issuance of any order which would (a) prevent such party from consummating the merger, the stock purchase or the combination, (b) prohibit the combined company's ownership or operation of any portion of the business of Pihana or i-STT or (c) compel the combined company following the closing of the combination to dispose of or hold separate any portion of our, i-STT's or Pihana's business or assets;

by us if:

Pihana, STT Communications or i-STT breaches any material representation, warranty, covenant or agreement, or if any representation or warranty has become untrue, however, if the breach is curable, Pihana or STT Communications and i-STT will have the opportunity to cure the breach within 30 days; or

we enter into one or more agreements with a third party with respect to a superior proposal, as defined above.

by i-STT, if Pihana, us, Eagle Jaguar Acquisition Corp. or Eagle Panther Acquisition Corp. breaches any material representation, warranty, covenant or agreement, or if any representation or warranty has become untrue, however, if the breach is curable, we or Pihana will have the opportunity to cure the breach within 30 days;

by STT Communications and Pihana if:

(a) our board of directors withdraws or modifies its recommendation to vote in favor of the combination agreement, (b) our board of directors recommends to our stockholders a competing transaction, or (c) a tender offer or exchange offer for 15% or more of the outstanding shares of our stock is commenced and our board of directors fails to oppose that offer within 5 business days; or

we enter into one or more agreements with a third party with respect to a superior proposal, as defined above.

by Pihana if:

we, STT Communications or i-STT breaches any material representation, warranty, covenant or agreement, or if any representation or warranty has become untrue, however, if the breach is curable, we or STT Communications and i-STT will have the opportunity to cure the breach within 30 days; or

we enter into one or more agreements with a third party with respect to a superior proposal, as defined above.

the combination agreement will terminate automatically if it fails to receive the requisite vote for approval by our stockholders.

**Liquidated Damages and Expense Reimbursement**

If the combination agreement is terminated, all fees and expenses will be paid by the party incurring them, except as described below.

We will pay all expenses incurred in connection with preparing, printing, filing and mailing this proxy statement, including all reasonable out-of-pocket expenses for services provided by counsel, accountants, investment bankers, experts and consultants.

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In addition, we will pay liquidated damages to each of STT Communications and Pihana in the amount of \$1.3 million if:

(a) our board of directors withdraws or modifies its recommendation to vote in favor of the combination agreement, (b) our board of directors recommends to our stockholders a competing transaction, or (c) a tender offer or exchange offer for 15% or more of the outstanding shares of our stock is commenced and our board of directors fails to oppose such offer within 5 business days; or

we enter into one or more agreements with a third party with respect to a superior proposal, as defined above.

Further, we will pay each of STT Communications and Pihana up to \$750,000 to cover reasonable expenses if the combination agreement is not approved by our stockholders. If within 12 months of that termination of the combination agreement we consummate or agree to consummate a competing transaction, we will pay each of STT Communications and Pihana \$1.3 million less any expenses previously paid.

### **Indemnification of the Combined Company by Escrow Fund**

To secure the indemnification obligations of Pihana's stockholders in the combination, 10% of the shares of our common stock that would otherwise be issuable at the closing of the combination will be held in escrow. Pursuant to the combination agreement, Jane Dietze has been designated as the agent of Pihana's stockholders with respect to indemnification matters. The escrow will terminate one year after the effective time, but shares necessary to satisfy any unsettled claims made prior to termination of the escrow period will remain in escrow until those claims have been finally resolved.

We will be indemnified by the escrow fund as described below for any and all damages we may suffer as a result of any of the following:

any inaccuracy or breach of any representation or warranty made by Pihana in the combination agreement;

the breach of any covenant or agreement made by Pihana in the combination agreement;

if any Pihana stockholder exercises appraisal rights, the amount by which the fair market value of the shares exceeds the amount such Pihana stockholder was otherwise entitled to receive pursuant to the combination agreement;

any cost, loss or other expense as a result of golden parachute payments;

any cost, loss or other expense related to reduction in force in Pihana's Honolulu, Los Angeles and Singapore operations and lease terminations in Los Angeles, Honolulu and Singapore;

Pihana's divestiture of its Korean operations;

any cost, loss or other expense incurred by us related to the indemnity provided for Pihana's directors and officers in the combination agreement and not related to the transactions contemplated by the combination agreement; or

any cost, loss or other expense related to the termination of Pihana's amended and restated voting agreement.

Except for indemnification claims based on fraud, willful misrepresentation or misconduct, the total liability for indemnification obligations will not exceed the shares of our common stock held in escrow. Further, except for indemnification claims based on fraud, willful misrepresentation or misconduct, no indemnification payment by the escrow fund will be payable for indemnification obligations arising from inaccuracies or breaches of Pihana representations and warranties until the total claims for damages exceed \$400,000.



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**Indemnification of the Combined Company by i-STT**

The combination agreement provides that, subject to the limitations described below, the combined company will be indemnified by i-STT for any and all damages the combined company may suffer as a result of any of the following:

any inaccuracy or breach of any representation or warranty made by i-STT in the combination agreement;

the breach of any covenant or agreement made by i-STT in the combination agreement;

any cost, loss or other expense incurred by the combined company related to the indemnity provided for in the combination agreement and not related to the transactions contemplated by the combination agreement; or

any cost, loss or other expense incurred by the combined company in excess of \$25,000 relating to i-STT's subsidiary in China, but the combined company must use reasonable efforts to mitigate those expenses, including liquidating the subsidiary on or prior to March 1, 2004.

To secure the indemnification obligations of i-STT in the combination, 50% of the shares of our capital stock that would otherwise be issuable at the closing of the combination will be legended and subject to claims for indemnity by the combined company.

Except for indemnification claims based on fraud, willful misrepresentation or misconduct, the total liability for indemnification obligations will not exceed the shares of our common stock legended as described above. Further, except for indemnification claims based on fraud, willful misrepresentation or misconduct, no indemnification payment by the escrow fund will be payable for indemnification obligations arising from inaccuracies or breaches of i-STT representations and warranties until the total claims for damages exceed \$400,000.

**Indemnification of STT Communications and Pihana Stockholders by the Combined Company**

The combination agreement provides that STT Communications and Pihana's stockholders will be indemnified by the combined company for any and all damages they may suffer as a result of any of the following:

any inaccuracy or breach of any of our representations or warranties in the combination agreement; or

the breach of any of our covenants or agreements in the combination agreement.

Except for indemnification claims based on fraud, willful misrepresentation or misconduct, the total liability for indemnification obligations will not exceed (a) with respect to Pihana, the number of shares of our common stock held in the escrow fund and (b) with respect to STT Communications, one-half of the shares issued to STT Communications in the i-STT stock purchase. Further, except for indemnification claims based on fraud, willful misrepresentation or misconduct, no indemnification payment by the escrow fund will be payable for indemnification obligations arising from inaccuracies or breaches of our representations and warranties until the total claims for damages exceed \$400,000.

**Amendment and Waiver**

We, STT Communications, i-STT and Pihana may amend the combination agreement at any time with a written statement executed by each of the parties and in accordance with applicable law.

At any time prior to the effective time, we, STT Communications, i-STT or Pihana may each unilaterally:

extend the time for the performance of any obligation or other act of any other party;

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waive any inaccuracy in the representations and warranties contained in the combination agreement or in any document delivered pursuant to the combination agreement; and

waive compliance with any agreement or condition contained in the combination agreement;

but an extension or waiver will not bind any other party to whom the obligation is owed or for whose benefit the representations, warranties, agreements or conditions have been made or given.

**Disputes**

All disputes will be settled by arbitration to take place in London, England.

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**AGREEMENTS RELATED TO THE COMBINATION**

*The following is a summary of the material provisions of our voting agreements and provisions contained in the governance agreement. The following is not a complete description of all the provisions of these agreements, and we encourage you to read these agreements in their entirety. This summary is qualified in its entirety by reference to the full text of these agreements which have been filed with the SEC on Form 8-K on October 9, 2002.*

**Voting Agreements**

As of September 30, 2002, holders of approximately 20% of our outstanding common stock executed voting agreements requiring them to vote in favor of the combination and any matter that could reasonably be expected to facilitate the combination and against any competing transaction or any other action that could reasonably be expected to delay or interfere with approval of the combination.

Each of those stockholders agreed to not do the following prior to the earlier of the termination of the combination or the closing of the combination: (a) sell or otherwise dispose of our common stock; (b) enter into a voting trust or a voting arrangement; and (c) enter into any contract, commitment, option or other arrangement or undertaking with respect to the direct or indirect acquisition or sale, assignment, pledge, encumbrance, transfer or other disposition of any shares of our common stock.

**Governance Agreement**

The governance agreement contains the following provisions (in addition to the voting and other provisions described under Governance of the Combined Company ):

*Right of First Offer.* STT Communications or its assignees will have a right of first offer with respect to future sales of capital stock or convertible securities by the combined company and will be entitled to purchase its pro-rata portion, based on its equity ownership of the combined company, of securities offered by the combined company. There will be exceptions for employee issuances, business acquisitions and other strategic transactions.

*Registration Rights.* In order to provide for the resale of our common stock to be issued in the combination (or issuable upon conversion of the Series A preferred stock issued in the combination) into the public market, we will register those shares with the SEC. The governance agreement requires us to file a registration statement with the SEC within 90 days of the closing and cause that registration statement to be effective within six months of the closing. We will use commercially reasonable efforts to cause the registration statement to remain effective until all shares of common stock to be issued in the combination have been sold, subject to our ability to impose blackout periods. We also granted the right to participate in other registration statements filed by Equinix (other than employee stock and acquisition related offerings) and the right to register on Form S-3 (or Form S-1 if Form S-3 is not available) shares of our common stock to be issued in the combination. The governance agreement also includes our obligation to indemnify or contribute to losses suffered by the holders of securities registered pursuant to that agreement. These losses may include losses incurred under federal securities laws.

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**OTHER MATTERS RELATED TO THE COMBINATION**

**Securities Law Matters**

The shares of our common stock and preferred stock to be issued in the combination and the notes and warrants to be issued in connection with the financing will be issued in a transaction exempt from registration under the Securities Act of 1933, by reason of Section 4(2) of the Securities Act or regulations promulgated by the SEC thereunder.

**Accounting Treatment of the Combination**

The combination will be accounted for as a purchase transaction for accounting and financial reporting purposes, in accordance with accounting principles generally accepted in the United States. After the merger, the results of operations of Pihana and i-STT will be included in our consolidated financial statements. The purchase price will be allocated based on the fair values of the assets acquired and the liabilities assumed. Pursuant to Statements of Financial Accounting Standards No. 141, Business Combinations, and Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, goodwill will be subject to at least annual assessment for impairment based on a fair value test. Identified intangible assets with finite lives will be amortized over those lives. A final determination of the intangible asset values and required purchase accounting adjustments, including the allocation of the purchase price to the assets acquired and liabilities assumed based on their respective fair values, has not yet been made. We will determine the fair value of assets and liabilities and will make appropriate business combination accounting adjustments. However, for purposes of disclosing unaudited pro forma information in this proxy statement, we have made a preliminary determination of the purchase price allocation, based upon current estimates and assumptions, which is subject to revision upon consummation of the combination based on our and i-STT's respective working capital balances of each of us and i-STT and the Pihana cash balance.

Completion of the combination will result in total pre-tax costs of approximately \$17.0 to \$20.0 million, primarily relating to costs associated with combining the businesses of the companies, including integration and restructuring costs, and legal, accounting and financial advisory fees. Although we do not believe the combination costs will significantly exceed our estimate, our estimate may not be correct and unanticipated events could occur that would substantially increase the costs of combining the companies. The extent of these additional costs is not yet determined. In any event, any costs associated with the combination would negatively affect our results of operations in the quarter in which the combination is completed. In addition, costs consisting primarily of legal, accounting and financial advisory fees and expenses, will be a component of the purchase price and capitalized as an element of goodwill.

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**THE FINANCING**

**General**

*Securities to be Issued.* At the same time we entered into the combination agreement, we entered into a securities purchase agreement with STT Communications. To provide funding for (a) operations, (b) the senior note exchange and (c) payment of a portion of the principal amount outstanding under the credit facility. The terms of the securities purchase agreement and the securities that may be issued under the securities purchase agreement were determined in arms-length negotiation between us, STT Communications and representatives of the Pihana stockholders. The following securities may be issued under the securities purchase agreement:

14% Series A-1 convertible secured notes due November 1, 2007;

10% Series A-2 convertible secured notes due November 1, 2007;

warrants to purchase shares of our preferred stock;

warrants to purchase shares of our common stock;

warrants to purchase shares of our common stock upon a change of control; and

warrants to purchase shares of our common stock upon defaults under our credit facility.

*Closing Conditions.* The issuance and sale of securities under the securities purchase agreement is subject to customary closing conditions, including:

the documents effecting the security of the convertible secured notes must be executed and delivered;

the guarantees by all of our subsidiaries as of the issuance and sale of the securities must be executed; and delivered

the conditions in the combination agreement relating to the senior note exchange and the amendment to our credit facility must be satisfied or waived; and

the combination must close concurrently with the issuance and sale of the securities under the securities purchase agreement.

*Representations and Warranties; Indemnities and Expenses.* The securities purchase agreement incorporates the representations and warranties in the combination agreement, incorporates the affirmative and negative covenants in our credit facility and contains events of default corresponding to the events of default under our credit facility. We may, or the prospective purchasers may, terminate the securities purchase agreement if the combination agreement is terminated. We will indemnify the holders of the convertible secured notes from specific liabilities, such as environmental liabilities. In addition, we will reimburse \$200,000 of fees of counsel to the purchasers under the securities purchase agreement.

*Registration Rights.* We will also grant rights to three demand registrations, the right to participate in other registration statements filed by us (other than employee stock and acquisition related offerings) and the right to register shares on Form S-3 (or Form S-1 if Form S-3 is not available) shares of our common stock issued, directly or indirectly, upon conversion of the notes or exercise of any of the warrants issued under the securities purchase agreement. The registration rights agreement will include our obligation to indemnify or contribute to losses suffered by the holders of securities registered pursuant to that agreement. These losses may include losses incurred under federal securities laws.

**The Convertible Secured Notes**

*Principal Amount.* The Series A-1 convertible secured notes may be issued in an original principal amount of not less than \$30.0 million and up to \$40.0 million. Under the securities purchase agreement, STT

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Communications has committed to purchase at least \$30.0 million of Series A-1 convertible secured notes. Up to \$10.0 million of Series A-2 convertible secured notes may be issued under the securities purchase agreement but the total principal amount of the Series A-1 and Series A-2 convertible secured notes will not exceed \$40.0 million.

*Security.* The Series A-1 convertible secured notes will be secured by (a) a first priority security interest in i-STT's assets and the assets of Pihana's subsidiary which owns and operates Pihana's data center in Singapore and by a pledge of the stock of i-STT's subsidiaries and (b) by a second priority security interest in all of the collateral securing our and our subsidiaries' obligations under our credit facility (which excludes the i-STT assets and Pihana's Singapore assets).

The Series A-2 convertible secured notes share with the Series A-1 convertible secured notes a second priority security interest in all of the collateral securing our and our subsidiaries' obligations under the credit facility (which excludes the i-STT assets and Pihana's Singapore assets).

The convertible secured notes will be guaranteed by all of our existing subsidiaries, by all of the subsidiaries of ours acquired in the combination (except that the Singapore subsidiaries will guarantee only the Series A-1 convertible secured notes) and by all of our future domestic subsidiaries.

*Interest.* Interest on the convertible secured notes will be payable in arrears in additional notes of the same series, on May 1 and November 1 of each year, beginning on May 1, 2003 until maturity. Interest will accrue at the rate of 14% per year on the Series A-1 convertible secured notes and 10% per year on the Series A-2 convertible secured notes.

*Conversion of Notes.* The principal amount of, and accrued interest on, the convertible secured notes are convertible into shares of our capital stock at a price of \$0.3366 per underlying share of our common stock at any time at the option of the holder of such notes. The Series A-1 convertible secured notes are convertible into shares of our Series A preferred stock, Series A-1 preferred stock or common stock. The Series A-2 convertible secured notes are convertible into shares of our common stock. See "Governance of the Combined Company" beginning on page 89.

The conversion price will be adjusted to mitigate or prevent dilution if fundamental changes occur to our common stock, dividends are declared on our common stock or we issue, or contract to issue, shares of our common stock at a price per share below \$0.3366 per share.

*Forced Conversion of Notes.* Until the third anniversary of the closing, we may convert 95% of the convertible secured notes and after third anniversary of the closing, we may convert 100% of the convertible secured notes, if

the closing price of our common stock exceeds \$1.1781 for thirty consecutive trading days;

the average daily trading volume of our common stock during that 30-day trading period exceeds 550,000; and

We have caused a registration statement to become effective under the Securities Act which provides for the resale by the noteholders of the shares of our common stock issued or issuable upon conversion.

*Change in Control.* We must offer to purchase all outstanding convertible secured notes at their principal amount together with accrued and unpaid interest if we experience a change of control.

**Common and Preferred Stock Warrants**

We will issue to the purchasers of convertible secured notes, warrants to purchase shares of our capital stock. The warrants issued to purchasers of Series A-1 convertible secured note will be exercisable for shares of

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our Series A preferred stock, Series A-1 preferred stock or common stock, subject to the restrictions as described under Governance of the Combined Company. The warrants issued to Series A-2 convertible secured note purchasers will be exercisable for shares of our common stock. The warrants will initially have an exercise price of \$0.01 per underlying share of our common stock and may be exercised on a cashless basis.

If \$30.0 million of original principal amount of our convertible secured notes is issued, the warrants will represent the right to purchase approximately 8.25% of our capitalization after the combination and the issuance of the warrants (but before the conversion of convertible secured notes). The number of shares initially issuable in connection with the convertible secured notes will equal a percentage of our capitalization equal to 0.0000275% per \$1.0 million original principal amount of convertible secured notes. The exercise price of the warrants will be adjusted to mitigate or prevent dilution if fundamental changes occur to our common stock, dividends are declared on our common stock or we issue, or contract to issue, shares of our common stock at a price per share below \$0.3366 per share. The warrants will expire five years after the closing.

### **Change in Control Warrants**

If we experience a change in control, the change of control warrants will become exercisable for shares of our common stock with a total current market value of up to 20% of:

- the principal amount of notes for which that warrant originally issued, plus
- the principal amount of all convertible secured notes issued in payment of interest on those original notes, minus
- the principal amount of those notes which have been converted into shares of our capital stock or repaid in cash, plus
- accrued and unpaid interest on any then outstanding notes.

For purposes of the convertible secured notes and the change in control warrants, a change of control is defined as:

- the direct or indirect sale or transfer of all or substantially all of our assets;
- any business combination which results in the holders of our capital stock prior to the business combination beneficially owning less than 50% of the voting securities of the resulting parent entity in such business combination; or
- if more than 50% of our board of directors becomes controlled by directors who were neither (a) on our board of directors two years before the date of the change in control, nor (b) elected or nominated by such directors or their successors who were nominated as required by this sentence.

The acquisition by STT Communications or its affiliates and associates of up to 66<sup>2</sup>/<sub>3</sub>% of our voting securities will not be a change in control.

### **Cash Trigger Warrants**

To provide a mechanism to allow STT Communications and other purchasers of convertible secured notes to ensure our compliance with covenants under the senior secured credit facility, the holders of a series of our warrants will have the right, but not the obligation, to exercise their warrants on the terms described below. The cash trigger warrants will be exercisable for shares of our common or preferred stock valued at up to \$30.0 million. \$10.0 million of Series A cash trigger warrants will be issued to STT Communications and those warrants will have an exercise price which is the lesser of (a) \$0.306 or (b) 90% of the then current market value of shares of our common stock. \$20.0 million of Series B cash trigger warrants will have an exercise price of 90% of the then current market value of shares of our common stock. The \$0.306 per share exercise price of

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Series A cash trigger warrants will be adjusted to mitigate or prevent dilution if fundamental changes occur to our common stock, dividends are declared on our common stock or we issue, or contract to issue, shares of our common stock at a price per share below \$0.306.

The Series A cash trigger warrants will be issued to STT Communications and in STT Communications' discretion, purchasers of Series A-2 convertible secured notes and former holders of Pihana's preferred stock may be issued Series B cash trigger warrants.

The cash trigger warrants will be exercisable if we (a) do not have sufficient funds to pay, and fail to pay when due, any principal, interest, fee or other amount under our credit facility, or (b) breach our obligations to maintain certain minimum cash balances under our credit facility agreement. The holders of the cash trigger warrants have no obligation to exercise their warrants. If a default occurs under our credit facility, we cannot assure you that we will have adequate financial resources to prevent our lenders from foreclosing on our assets. See Risk Factors beginning on page 24.

If the cash trigger warrants are exercised based on the condition described in (a) above, the cash trigger warrants will be exercisable not less than \$5.0 million and not more than \$5.0 million plus the amount of the missed payment.

If the cash trigger warrants are exercised on the condition in (b) above, the cash trigger warrants will be exercisable for not less than \$5.0 million and not more than \$5.0 million plus any shortfall in our minimum cash balance requirements.

**Material Federal Income Tax Considerations of the Financing**

Federal tax law contains various limitations and restrictions on the deductibility of interest and/or original issue discount. Some of these limitations and restrictions may be applicable to the interest and/or the original issue discount associated with the Series A-1 convertible secured notes. In such event, some or all of the interest or original issue discount associated with such notes may not be deductible by us.



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**THE SENIOR NOTE EXCHANGE**

*The following is a summary of the material provisions of the senior note exchange. The shares of our common stock issued in senior note exchange will be exempt from registration under the Securities Act of 1933 pursuant to Section 3(a)(9) of the Securities Act.*

**General**

We currently have a series of 13% Senior Notes due 2007 outstanding in principal amount of approximately \$147.2 million, which we call senior notes. Our stockholders are being asked at the special meeting to approve the issuance of common stock as part of the senior note exchange. Our board of directors has approved the senior note exchange as a means to reduce our total outstanding indebtedness.

**Reasons for the Senior Note Exchange**

The senior note exchange is intended to improve our existing capital structure by reducing our outstanding debt. The exchanges of our common stock and cash for the senior notes will result in significant interest expense savings and will reduce the aggregate principal payment otherwise due in December 2007. For example, if we exchange \$125.0 million in principal amount of our senior notes for cash and common stock, we would save \$16.3 million per year in interest expense, or nearly \$89.4 million over the remaining term of the senior notes. We would also reduce the amount of principal payments that would otherwise come due in December 2007 by \$125.0 million. This would result in a net reduction in our payments on the exchanged senior notes of nearly \$198.2 million.

After full and careful deliberation and consideration of the senior note exchange, our board of directors determined that the terms of the senior note exchange are advisable to, and in the best interests of, our stockholders.

In recommending the senior note exchange, our board of directors considered a number of factors (many of which are set forth below) that it believed supported its recommendation. Factors the board of directors considered include:

the combination agreement requires that no more than \$22.3 million of principal amount of senior notes remain outstanding as of closing;

we would be required to pay all unpaid principal plus accrued interest on each of the notes by December 31, 2007 and there is a high likelihood that we would not be able to obtain sufficient funds to pay the notes when they became due; and

the current unfavorable economic environment and general recessionary economy, and the resulting low likelihood of restructuring the senior notes on terms reasonably favorable to our stockholders.

The above discussion of information and factors considered by our board of directors is not intended to be exhaustive but is believed to include all material factors considered by our board of directors. In view of the wide variety of factors considered by our board of directors, our board of directors did not find it practicable to quantify or otherwise assign relative weight to the specific factors considered. In addition, the board of directors did not reach any specific conclusion on each factor considered, or any aspect of any particular factor, but conducted an overall analysis of these factors. Individual members of our board of directors may have given different weight to different factors. However, after taking into account all of the factors described above, our board of directors determined that the senior note exchange is fair to, and in the best interest of, our stockholders.

**Table of Contents****Principal Terms of the Senior Note Exchange**

As a condition to closing the combination and financing, we are required to substantially reduce the outstanding amount of our senior notes so that no more than \$22.3 million is outstanding under the notes. This condition requires us to retire at least \$124.9 million of our outstanding senior notes unless two of the three combining companies agree to waive the condition. Prior to signing the combination agreement, we received offers to exchange outstanding senior notes from the holders of \$101.2 million of our senior notes, leaving more than \$23.7 million additional senior notes that we are required to exchange in the senior note exchange in order to close the combination and the financing. In connection with the combination and financing, we have made an offer to exchange cash and shares of our common stock for all of our outstanding senior notes. Holders of our senior notes will receive an amount of cash and shares of our common stock based on the aggregate principal amounts of senior notes exchanged as described in the following tables. The amount of cash and the number of shares exchanged for each senior note will vary depending on the aggregate amount of senior notes exchanged, the amount of convertible secured notes issued in connection with the financing and the number of shares issued in connection with the combination. The tables below describe the amount we will pay for every \$1.00 of principal of senior notes exchanged and the aggregate consideration that will be given for the senior notes.

**Table 1 Consideration per \$1.00 principal amount of senior notes exchanged**

Total Principal Amount Exchanged (\$ in millions)		Cash Consideration	Maximum Stock Consideration**	Maximum Value of Stock Consideration***	Maximum Total Consideration per \$1.00 Senior Note Exchanged
Equal to or greater than:	but less than:				
\$115.0*	\$125.0	\$0.13	.469	\$0.13	\$0.26
\$125.0	\$132.5	\$0.14	.383	\$0.11	\$0.25
\$132.5	\$140.0	\$0.15	.317	\$0.09	\$0.24
\$140.0	\$147.2	\$0.16	.261	\$0.07	\$0.23
\$147.2	NA	\$0.17	.212	\$0.06	\$0.23

**Table 2 Aggregate consideration for senior notes exchanged**

Total Principal Amount Exchanged (\$ in millions)		Maximum Aggregate Cash Consideration (\$ in millions)	Maximum Aggregate Stock Consideration (shares in millions)**	Aggregate Value of Stock Consideration (\$ in millions)***	Maximum Total Aggregate Consideration (\$ in millions)
Equal to or greater than:	but less than:				
\$115.0*	\$125.0	\$16.3	58.6	\$16.4	\$32.7
\$125.0	\$132.5	\$18.6	50.7	\$14.2	\$32.8
\$132.5	\$140.0	\$21.0	44.4	\$12.4	\$33.4
\$140.0	\$147.2	\$23.6	38.4	\$10.8	\$34.4
\$147.2	NA	\$25.0	31.2	\$8.7	\$33.7

\* We have assumed a minimum of \$115.0 million of senior notes are exchanged. In the event that less than \$115.0 million of senior notes are exchanged and the senior note exchange is consummated, the cash consideration paid per \$1.00 of principal amount of senior notes exchanged and the aggregate shares issued shall equal the amounts set forth for \$115.0 million of senior notes exchanged.

\*\* Actual numbers may decrease depending upon total number of shares issued in the combination and the financing and the principal amount of senior notes exchanged.

\*\*\* Stock value based on the closing price of our common stock on The Nasdaq National Market on December 6, 2002 of \$0.28.

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We have commenced an exchange offer for all of our outstanding senior notes, and the holders of the senior notes currently have until December 24, 2002 to tender their senior notes to us in exchange for the consideration described above. The expiration of the exchange offer may be extended at our option and the closing of the senior note exchange is conditioned upon our stockholders approving Proposal 1 to authorize the issuance of the shares in the senior note exchange.

*Consent Solicitation.* As part of the senior note exchange, we are requesting the holders of the senior notes to consent to the adoption of the proposed amendment of the indenture governing the senior notes, which will materially reduce our obligations under the indenture. If adopted, the proposed amendment will remove restrictions on our ability to, among other things, incur indebtedness or liens, make dividend payments, enter into transactions with our stockholders and affiliates, sell assets, and consolidate or merge.

*Conditions to Closing.* The senior note exchange is conditioned upon the occurrence of a number of events, including:

the closing;

our receipt of cash proceeds of at least \$30.0 million in the financing;

approval of the proposed restated certificate of incorporation by our stockholders; and

the senior note exchange must not violate any applicable law, regulation, injunction, or other order of any court or governmental agency.

### **Principal Effects of the Issuance of Common Stock**

The senior note exchange will have a dilutive effect on our existing stockholders. The senior note exchange will occur immediately before the closing.

### **Material Federal and State Income Tax Consequences of the Senior Note Exchange**

#### *Cancellation of Indebtedness Income*

We will realize cancellation of indebtedness, which we call COD, income as a result of the payment of the cash and shares of our common stock issued in the senior note exchange if, and to the extent that, the sum of the cash and the fair market value of the shares is less than the adjusted issue price of the senior notes surrendered in connection with the senior note exchange. The adjusted issue price of each senior note is generally equal to the issue price of each such note (which we have reported as \$918.97 for each note), increased by the amount of original issue discount previously includable in the gross income of the holder thereof, and decreased by the amount of any payments (other than payments of qualified stated interest) we previously made on such senior notes.

As of December 31, 2001 we had federal net operating loss carryforwards (which we call NOL carryforwards) from prior tax years in the approximate amount of \$202.4 million. For purposes of computing our federal alternative minimum tax for any tax year ending in 2003 or thereafter, our NOL carryforwards may be used to offset only 90% of our alternative minimum taxable income. However, even after considering such 90% alternative minimum tax limitation, we expect the combination of our NOL carryforwards and the losses incurred by us in the tax year in which the senior note exchange occurs to offset substantially all of the COD income recognized by us by reason of the senior note exchange. (For a discussion regarding the availability of our NOL carryforwards and the impact of the senior note exchanges on our ability to use our NOL carryforwards to reduce our future federal income tax liability, see Ability to Utilize NOL Carryforwards and Recognized Built-in Losses immediately below.)

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It is important to note, however, that in addition to the federal tax considerations set forth above, a number of states in which we are subject to tax, including California and New Jersey, have adopted legislation suspending the ability to utilize NOL carryforwards for state law purposes. Thus to the extent that we are required to rely on NOL carryforwards (as opposed to current year tax losses) to offset the COD income generated by the senior note exchange, we may incur a material state tax liability by reason of the senior note exchange. Because the amount of such liability will depend upon the amount of COD income generated, the allocation of such income among the various states in which we are subject to tax, the taxable year in which the senior note exchange occurs, and the amount of losses, if any, generated by us in the future in the various states in which we are subject to tax, the exact amount of such potential state tax liability cannot be determined at this time.

*Ability to Utilize NOL Carryforwards and Recognized Built-in Losses*

As of December 31, 2001 we had federal NOL carryforwards from prior tax years in the amount of approximately \$202.4 million. Based upon available records of stock ownership, we do not believe that we have experienced an ownership change, as defined in Section 382 of the Code and the regulations promulgated thereunder, since the date of our initial public offering on August 10, 2000. Accordingly, as discussed above under the heading Cancellation of Indebtedness Income, we believe that these federal NOL carryforwards will generally be available to offset the COD income generated by reason of the senior note exchange. If, notwithstanding such analysis, an ownership change under Code Section 382 has occurred, then our ability to use our NOL carryforwards will be limited, and we could incur a significant amount of tax with respect to the COD income generated by the senior note exchange.

Regardless of whether an ownership change under Code Section 382 has occurred in the past, it is likely that the issuance of our common stock in connection with the senior note exchange as well as in connection with the financing and the combination, each as described in this proxy, will cause us to experience an ownership change as of the consummation of such transactions. After such ownership change, we will generally be limited to using an amount of pre-ownership-change NOLs for any tax year that is equal to the product of (1) the value of our equity (determined immediately prior to the ownership change and generally ignoring any capital contributions made within two years of the ownership change) and (2) a floating percentage determined by the Internal Revenue Service from time to time (which for ownership changes occurring in November 2002 is 4.63%). Applying these rules based on our current equity value, an ownership change would result in limitations on utilization that are so severe that almost all of our NOLs would expire unused. In addition to the limitations on NOL carryforward utilization described above, to the extent we have a net unrealized built-in loss in our assets as of the date of an ownership change, a portion of the depreciation and amortization on our assets, as well as certain losses on the sale of our assets, will generally be subject to the foregoing limitations on use as if they constituted a pre-ownership-change NOL carryforward.

*Consequences of Proposed Amendment to Senior Notes Indenture*

We intend to take the position that the proposed amendment to the indenture governing the senior notes, if effected, will not cause those senior notes that are not tendered by the holders thereof pursuant to the senior note exchange to be deemed exchanged for new senior notes for federal income tax purposes. Whether a senior note will be deemed to be exchanged for a new senior note for federal income tax purposes will depend upon whether the proposed amendment to the indenture governing the senior notes, if effected, will result in a significant modification of the senior notes, as such term is defined in the regulations promulgated under the Code. Under the regulations promulgated under the Code, the modification of a debt instrument is a significant modification if the legal rights or obligations that are altered and the degree to which they are altered are economically significant. Whether or not such a change exists is based on all of the facts and circumstances surrounding the change. However the regulations promulgated under the Code provide that a modification to a debt instrument that adds, deletes, or alters customary accounting or financial covenants is not a significant modification.

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There can be no assurance that the Internal Revenue Service will not assert a contrary position regarding whether the effectiveness of the proposed amendment will give rise to a deemed exchange of the untendered senior notes, or whether, if asserted, such position will prevail. In the event that the untendered senior notes were deemed to be exchanged for new senior notes for federal income tax purposes, we would recognize COD income with respect to each such senior note upon such deemed exchange (i.e., upon the effective date of the proposed amendment) in an amount equal to the excess of the adjusted issue price of such senior note (as of the effective date of the proposed amendment) over the fair market value of such senior note (measured as of the effective date of the proposed amendment). The adjusted issue price of each senior note is generally equal to the issue price of such note (which we have reported as \$918.97 for each senior note), increased by the amount of original issue discount previously includible in the gross income of the holder of such note, and decreased by the amount of any payments (other than payments of qualified stated interest) previously made by us on such note.

**Interests of Certain Persons**

None of our directors or executive officers or nominees for the directors or associates of the foregoing has any interest, direct or indirect, in the matters contemplated by the senior note exchange.

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**THE CREDIT FACILITY**

**General**

As a condition to the combination, the financing and senior note exchange, we are in discussions with our syndicate of lenders to revise our credit facility to, among other things, reset the financial covenants for future periods to levels that we believe are more consistent with market conditions. The lenders have agreed on the principal terms of this amendment and have agreed to recommend the terms to their credit committees. The terms of the proposed amendment to our credit facility are further described below.

**Background of the Amendment to Our Credit Facility**

In December 2000, we entered into a credit facility with a syndicate of lenders under which, subject to our compliance with a number of financial ratios and covenants, we were permitted to borrow up to \$150.0 million. As of September 30, 2001, we had borrowed the entire \$150.0 million under the credit facility. In October 2001, in conjunction with the repayment of \$50.0 million, we amended our credit facility to decrease total borrowing allowed to \$125.0 million and to reset certain financial covenants to more accurately reflect market conditions. As of September 30, 2002, a total of \$100.0 million was outstanding under our credit facility. Our credit facility requires us to maintain specific financial ratios and comply with quarterly, and in some circumstances, monthly covenants requiring us to, among other things, achieve specific revenue targets at levels significantly above historical revenues, maintain certain minimum cash balances and limit our EBITDA losses.

As of June 30, 2002, we were not in compliance with our covenants, including the revenue covenant, of our credit facility. In August 2002, the lenders provided us with a waiver and further amended our credit facility. Under the August amendment to our credit facility, we agreed to prepay \$5.0 million of debt outstanding at the time of that amendment and agreed to a reduction in the total borrowing allowed under our credit facility to \$100.0 million (permanently eliminating \$20.0 million previously available for borrowing). In addition, the August amendment reset the minimum revenue and maximum EBITDA loss covenants through September 30, 2002 and reset the minimum cash balance covenant for the term of the loan. Further, the August amendment added a new covenant requiring us to convert at least \$100.0 million of our senior notes into common stock or convertible debt on or before November 8, 2002.

In November 2002, the lenders agreed to further amend the credit facility as follows:

We were granted a waiver of the covenant requiring us to convert \$100.0 million of senior notes by November 8, 2002.

We were granted a waiver to reset the minimum revenue and maximum EBITDA loss covenants through December 31, 2002 and the minimum cash balance covenant through March 31, 2003.

We were granted a waiver, subject to certain conditions, of an event of default created by a minimum cash covenant default and a payment default, if any, in existence pursuant to the Wells Fargo loan.

We were granted a waiver, subject to certain conditions, of a default or an event of default created by our failure to make the interest payment due on the senior notes in December 2002.

**Principal Terms of the Proposed Amendment to Our Credit Facility**

In connection with the proposed combination we have entered into discussions with our senior lenders on the principal terms for another amendment to our credit facility and the lenders have agreed to recommend the terms of such amendment to their credit committees. The most significant terms and conditions of the proposed amendment are:

we will be granted a full waiver of previous covenant breaches and will be granted consent to use a minimum of \$15.0 million to retire our senior notes;

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future revenue and EBITDA covenants will be eliminated and the remaining covenants and ratios will be reset consistent with the anticipated performance of the combined company for the remaining term of the loan;

we will repay \$7.5 million of the currently outstanding \$100.0 million; and

the amortization schedule for our credit facility will be amended so that the minimum amortization due in the years 2002 through 2004 will be significantly reduced and some amortization will be extended to 2006.

We currently anticipate that a final amendment will be put in place prior to the closing. This amendment will be subject to the closing.

We do not currently have sufficient cash reserves or alternate financing available to repay the amount outstanding under our credit facility. If we are unable to complete the combination, we will again be in breach of the covenants in our credit facility.

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**GOVERNANCE OF THE COMBINED COMPANY**

At the closing, the combined company will implement new governance provisions, including director nominating rights and procedures with respect to the election of directors. We will implement these governance provisions by means of an amendment of our bylaws, the adoption of a certificate of designation to create the Series A preferred stock with rights to elect directors, and the execution of a governance agreement with STT Communications and former preferred stockholders of Pihana.

*Nomination of Directors.* Under these governance provisions, the number of our directors will be fixed at nine. Initially, three directors will be elected by STT Communications as the holder of a majority of the Series A preferred stock outstanding. STT Communications as the holder of the Series A preferred stock will continue to have the right to elect directors until the governance provisions terminate. The number of directors to be elected by the holder or holders of the Series A preferred stock may be reduced as follows:

If the holders cease to own at least 30% of our outstanding voting shares, the number of directors they may elect will be reduced to two;

If the holders cease to own at least 15% of our outstanding voting shares, the number of directors they may elect will be reduced to one; and

If the holders cease to own at least 100 shares of the Series A preferred stock, they may no longer elect any directors.

The remaining six members of our board of directors will be nominated for election as follows:

Three directors will be nominated by our board of directors prior to closing the combination, and one of them must be independent within the meaning of applicable Nasdaq or other stock exchange rules. Any vacancies among those three seats will be filled based on the nomination of the remaining directors holding those seats, or if there are none remaining, by our nominating committee;

One director will be nominated by the former Pihana stockholders who sign the governance agreement as long as they own at least 11% of our voting stock, but their nominee must be reasonably acceptable to a majority of the other directors; and

Two directors (or more, to the extent the holders of the Series A preferred stock or the former Pihana stockholders lose their rights to elect or nominate directors) will be selected for nomination by our nominating committee, and all directors so selected must be independent.

*Agreement to Vote.* STT Communications will agree to vote its shares of us in favor of the election of all directors nominated as described above, and will give us a voting proxy to this effect.

*Independent Directors.* We anticipate that The Nasdaq National Market will adopt rules in the near future requiring our board of directors to be comprised of a majority of independent directors. As a result, five of our nine directors will need to be independent. Therefore, in addition to the three directors who must be independent upon their nomination as described above, two of the remaining six directors will need to be independent. To the extent that our board does not otherwise have five independent directors, one director nominated by the holders of Series A preferred stock, and the director nominated by the former Pihana stockholders, must be independent.

*Vacancies and Removal.* The holders of the Series A preferred stock and the former Pihana stockholders who have the right to designate directors will also have the right to remove the directors so designated, with or without cause. Our stockholders may remove directors only for cause. Any vacancies on the board may be filled by the stockholders or directors having the right, as described above, to nominate a director or directors to the seats vacated.

*Board Committees.* To the extent permitted by the rules of Nasdaq or another stock exchange on which our stock is traded, each committee of the board will have at least one director elected by the holders of the



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Series A preferred stock, and at least one director who was nominated by our board prior to closing (or by the remaining directors so nominated). So long as the holders of the Series A preferred stock have the right to elect at least two directors, our chairman of the board and (if permitted by applicable stock exchange rules) the chairman of our compensation committee will be a director elected by those holders.

*Termination of Governance Provisions.* The governance provisions described above will terminate on the second anniversary of the closing, or earlier upon the following events:

STT Communications ceases to own at least 100 shares of the Series A preferred stock and at least 10% of our common stock, on a fully-diluted basis;

STT Communications makes a tender offer for all our outstanding shares, and such offer meets certain financing and other conditions and is accepted by holders of a majority of our then outstanding capital stock (other than STT Communications);

We commence a bankruptcy or similar proceeding, or one is commenced against us;

A third party acquires, or signs a letter of intent to acquire, 15% or more of our voting stock;

We sell, or agree to sell, substantially all of our assets;

A third party (other than STT Communications) commences a fully-financed tender offer for our shares;

We breach certain material provisions of the combination agreement, the securities purchase agreement, or ancillary documents; or

The cash trigger warrants are exercised, in whole or in part.

*Amendment of Governance Provisions.* The nomination and other governance provisions of the bylaws may not be amended except by the vote of the holders of at least 75% of our voting stock. The right of the holders of Series A preferred stock to elect directors may not be amended except by the vote of the holders of a majority of the Series A preferred stock.

*Voting Rights of Preferred Stock; Restriction on Conversion.* The Series A preferred stock will vote together with our common stock on any question as to which the common stock has the right to vote, and the Series A preferred stock will carry a number of votes equal to the number of shares of common stock into which it is convertible.

Until the second anniversary of the closing, or the earlier occurrence of any of the termination events described above, STT Communications will be subject to certain restrictions on the amount of our voting securities that it may acquire upon conversion of notes or warrants. Under the securities purchase agreement, STT Communications may not convert its Series A-1 convertible secured notes into, or exercise the warrants for, Series A preferred stock or common stock, but instead must convert or exercise into Series A-1 preferred stock, if:

as a result of such conversion, STT Communications and its affiliates would hold more than 40% of our outstanding voting stock; or

STT Communications has not complied with requirements of the HSR Act with respect to a conversion that would cause it to hold voting stock valued in excess of \$50.0 million.

The Series A-1 preferred stock does not carry any right to vote for the election of directors, or any other voting rights except those required by law. The Series A-1 preferred stock may be converted, at the option of the holder, into shares of our Series A preferred stock or shares of our common stock, except as described above.

*Forced Conversion of Preferred Stock.* We may elect to force conversion of all shares of the Series A-1 preferred stock, and all but 100 shares of the Series A preferred stock, into common stock, if we have reported

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four consecutive quarters of net income after taxes (subject to the 40% restriction described above). If the forced conversion has occurred, the notes and warrants held by STT Communications may only be converted into, or only exercised for, shares of our common stock rather than our preferred stock (subject to the 40% restriction described above). Further, following the seventh anniversary of the closing, we may elect to redeem all or part of the Series A preferred stock or the Series A-1 preferred stock, at a price equal to the average closing price of the common stock for the 30 consecutive trading days ending five trading days prior to the redemption date.

*Preferred Stock Dividends and Liquidation Rights.* The Series A preferred stock and the Series A-1 preferred stock carry no preferential dividends or liquidation rights. The preferred stock will be entitled to received any dividend paid on common stock when and if declared by the board of directors. Further, the preferred stock will participate with the common stock on a pro rata basis in respect of any distribution upon our liquidation, dissolution or winding up.

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**PROPOSAL 2  
CHARTER MERGER**

**General**

In order to facilitate the combination, the financing and the senior note exchange, we need to accomplish the following:

*Reverse Stock Split*

On November 25, 2002, the Nasdaq Qualifications Panel notified us that as a result of the combination, the financing and the senior note exchange, we will be required to submit an application to re-qualify for initial listing on The Nasdaq National Market. One of the conditions to qualifying for initial listing is that our stock price must trade at or above \$5.00 per share. For the last several months our common stock has traded substantially below \$5.00. To bring the trading price of our common stock above \$5.00, our board of directors has authorized a reverse stock split to reduce the number of shares of our common stock outstanding. As a result of the reverse stock split, shares of our common stock will be combined into a smaller number of shares of our common stock. While the reverse stock split will reduce the number of shares held by each of our stockholders, it will not change the percentage of our outstanding stock owned by each stockholder. Based on our stock price on December 6, 2002 of \$.28 per share, in order to achieve the \$5.00 minimum share price we would need to complete a reverse stock split such that for approximately every 17.86 shares currently outstanding there would be one share outstanding following such reverse stock split. We anticipate that the actual reverse stock split ratio will cause our stock price to exceed the \$5.00 minimum requirement. Shares issuable in the combination, the financing and the senior note exchange will be adjusted to reflect the reverse stock split.

*Increase in Authorized Shares*

In addition to the reverse stock split, we also need to increase the number of authorized shares of preferred stock to allow for the issuance of shares of preferred stock upon conversion of the notes and exercise of warrants issued in connection with the financing. The authorized number of shares of preferred stock will be increased from 10,000,000 shares to 100,000,000 shares.

**The Merger**

In the charter merger, Eagle Oasis, Inc., one of our wholly- owned subsidiaries, will merge with and into us. As a result of this merger, the certificate of incorporation of Eagle Oasis, Inc. will become our certificate of incorporation. The Eagle Oasis, Inc. certificate of incorporation that we assume in the charter merger will contain sufficient authorized shares of preferred stock and common stock to complete the combination, the financing and the senior note exchange. The reverse stock split will be effected in the merger pursuant to the terms of the agreement and plan of merger attached to this proxy statement as Annex C by reclassifying each share of our common stock outstanding into a lesser number of shares of common stock through the application of an exchange ratio. The exchange ratio will be determined by our directors immediately prior to the closing based on the trading price our stock and market conditions at the time of closing.

We could also accomplish the reverse stock split and an increase in the authorized shares through an amendment to our restated certificate of incorporation. Under the terms of our restated certificate of incorporation, an amendment requires the affirmative vote of 66<sup>2</sup>/<sub>3</sub>% of our outstanding common stock. The charter merger, on the other hand, only requires the affirmative vote of a majority of our outstanding common stock. As we have disclosed throughout the proxy statement, if these transactions are not approved, we would file for bankruptcy protection and our existing stockholders' equity would be almost entirely eliminated. While we believe we could ultimately get the required 66<sup>2</sup>/<sub>3</sub>% vote to approve an amendment, given the importance of getting the transaction closed as soon as possible, we decided the charter merger was in the best interests of the company and its stockholders and creditors.

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In Proposal 2, you are being asked to vote for the agreement and plan of merger between Eagle Oasis, Inc. and us that will govern the charter merger. The certificate of incorporation of Eagle Oasis, Inc. is attached to the agreement and plan of merger as Exhibit A.

**Nasdaq Listing**

Our common stock is quoted on The Nasdaq National Market under the symbol EQIX. Since April 4, 2002, our common stock has traded below Nasdaq's minimum bid price requirement of \$1.00 per share. We were notified by Nasdaq on May 16, 2002, that we were not in compliance with Nasdaq's continued listing requirements because the closing minimum bid price per share of our common stock had remained below \$1.00 for 30 consecutive trading days. The letter further stated that the closing bid price of our common stock must be at least \$1.00 per share for ten consecutive trading days during the 90-day period subsequent to May 16, 2002, or Nasdaq would delist our common stock from trading on The Nasdaq National Market on or about August 14, 2002. On August 15, 2002, we received a notice from Nasdaq indicating that the failure of our common stock to maintain Nasdaq's minimum closing bid price requirement of \$1.00 had continued beyond the 90-day probationary period allowed under the Nasdaq National Marketplace Rules and, therefore, our common stock may be delisted. On August 21, 2002, we appealed such delisting decision and requested the delisting be stayed pending a hearing before The Nasdaq Listings Qualifications Panel. On October 3, 2002, we attended the hearing with the Nasdaq Listings Qualifications Panel regarding our appeal from the delisting determination. On November 25, 2002, we were notified by Nasdaq that our common stock would continue to trade on The Nasdaq National Market until at least December 31, 2002. In addition, Nasdaq informed us that because of the dilution to our stockholders caused by the combination, the financing and the senior note exchange we would have to re-qualify under Nasdaq listing rules to trade on The Nasdaq National Market. Under the initial listing requirements for The Nasdaq National Market, we must satisfy various listing standards established by Nasdaq. Among other things, Nasdaq requires that a company's common stock have a minimum bid price of at least \$5.00 per share. If the closing bid price of a company's common stock is below \$5.00, Nasdaq will not approve our application to re-qualify for listing and may delist our common stock from trading on The Nasdaq National Market.

Our board of directors believes that maintaining our Nasdaq listing may provide a broader market for our common stock and facilitate the use of our common stock in financing transactions. Our board of directors further believes that the delisting of our common stock from The Nasdaq National Market could adversely affect our ability to attract new investors and attract and retain employees, may result in decreased liquidity of our outstanding shares of common stock, and, consequently, could reduce the price at which our shares trade. In addition, our board of directors believes that any delisting of our common stock could deter broker-dealers from making a market in or otherwise generating interest in our common stock, and might deter certain persons from investing in our common stock.

If we do not effect a reverse stock split, we will not achieve the minimum \$5.00 bid price and expect our common stock to be delisted from The Nasdaq National Market. We cannot predict whether a reverse stock split will increase the market price for our common stock, and there can be no assurance that (a) approval and implementation of a reverse stock split will succeed in maintaining the bid price of our common stock above Nasdaq's \$1.00 per share minimum bid price for continued listing, (b) even if Nasdaq's minimum bid price maintenance standard were satisfied, we would continue to be able to meet its other quantitative continued listing criteria, or (c) our common stock would not be delisted by Nasdaq for other reasons. Further, the history of similar stock split combinations for companies in like circumstances is varied, and there can be no assurance that:

the market price per new share of our common stock after the reverse stock split will rise in proportion to the reduction in the number of old shares of our common stock outstanding before the reverse stock split;

the reverse stock split will result in a per share price that will attract brokers and investors who do not trade in lower priced stocks; or

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the reverse stock split will result in a per share price that will increase our ability to attract and retain employees and other service providers.

As noted, the reverse stock split may not achieve the desired results that have been outlined above. The market price of our common stock will also be based on our financial performance and other factors, some of which are unrelated to the number of shares outstanding. If the reverse stock split is effected and the market price of our common stock declines, the price decline as a percentage of our overall market capitalization may be greater than would occur in the absence of a reverse stock split. In addition, the reverse stock split will likely increase the number of our stockholders who own odd lots (less than 100 shares). Stockholders who hold odd lots typically will experience an increase in the cost of selling their shares, as well as possible greater difficulty in completing such sales.

**Principal Effects of a Reverse Stock Split**

*General.* The reverse stock split will be effected simultaneously for all of our common stock and the reverse stock split ratio will be the same for all of our common stock. The reverse stock split will affect all of our stockholders uniformly and will not affect any stockholder's percentage ownership interests in us, except to the extent that the reverse stock split results in any of our stockholders owning a fractional share. As described below, stockholders holding fractional shares will be entitled to cash payments in lieu of fractional shares. This, however, is not the purpose for which we are effecting the reverse stock split. Common stock issued pursuant to the reverse stock split will remain fully paid and non-assessable. We will continue to be subject to the periodic reporting requirements of the Exchange Act.

*Effect of sample reverse stock split.* For example, a reverse stock split ratio of 1-for-10 would have the following effects on the number of shares of common stock outstanding:

each ten shares of our common stock owned by a stockholder prior to the reverse stock split would be combined into one (1) share of common stock after the reverse stock split;

based on the number of shares of common stock outstanding on September 30, 2002, the number of shares of our common stock issued and outstanding will be reduced from approximately 98.9 million shares to approximately 9.9 million shares after the reverse stock split; and

all outstanding but unexercised options and warrants entitling the holders thereof to purchase shares of our common stock will enable each such holder to purchase, upon exercise of his or her options or warrants one-tenth of the number of shares of our common stock (rounded down to the nearest whole share) that such holder would have been able to purchase upon exercise of his or her options or warrants immediately preceding the reverse stock split at an exercise price (rounded up to the nearest penny) equal to ten times the exercise price specified before the reverse stock split, resulting in approximately the same aggregate exercise price being required to be paid upon exercise thereof as immediately preceding the reverse stock split.

*Fractional Shares*

No scrip or fractional shares will be issued in connection with the reverse stock split. Stockholders who otherwise would be entitled to receive fractional shares because they hold a number of pre-reverse stock split common stock shares not evenly divisible by the applicable split ratio will be entitled, upon surrender of certificate(s) representing such shares, to a cash payment in lieu thereof. The cash payment will equal the fraction to which the stockholder would otherwise be entitled multiplied by the average of the closing prices (as adjusted to reflect the reverse stock split) of our common stock, as reported in *The Wall Street Journal*, during the ten trading days preceding the date that is three days before the reverse stock split occurs. The ownership of a fractional interest will not give the holder thereof any voting, dividend or other rights, except to receive payment as described in this paragraph. No payment for fractional shares will be made to option holders. Instead, the number of shares issuable upon exercise of an option will be rounded down.

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Stockholders should be aware that, under the escheat laws of the various jurisdictions where stockholders reside, where we are domiciled and where the funds will be deposited, sums that are due for fractional interests that are not timely claimed after the effective time may be required to be paid to an agency in such jurisdiction. Thereafter, stockholders otherwise entitled to receive such funds may have to seek such funds directly from the state to which they were paid.

### **Effect of the Increase in the Number of Authorized Shares**

There are currently no shares of preferred stock outstanding. The board of directors has the authority to issue the preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without further vote or action by the stockholders. An issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders and may adversely affect the voting and other rights of the holders of common stock. Other than the issuance of our preferred stock as described in this proxy statement we have no plans to issue any preferred stock.

### **Accounting Matters**

The reverse stock split will not affect the par value of our common stock. As a result, on the effective date of the reverse stock split, the stated capital on our balance sheet attributable to our common stock will be reduced and the additional paid-in capital account shall be credited with the amount by which the stated capital is reduced. The per share net income or loss and net book value of our common stock will be increased because there will be fewer shares of our common stock outstanding.

### **Procedure for Effecting the Reverse Stock Split and Exchange of Stock Certificates**

If our stockholders approve the charter merger the reverse stock split ratio chosen by the board of directors will become effective at the time we file the merger agreement with the Secretary of State of Delaware. At such time, each certificate representing pre-reverse stock split shares will be deemed for all purposes to evidence ownership of post-reverse stock split shares.

As soon as practicable after the closing, you will be notified that the reverse stock split has been effected. We expect that our transfer agent, EquiServe L.P., will act as exchange agent for purposes of implementing the exchange of stock certificates. Holders of pre-reverse stock split shares will be asked to surrender to the exchange agent certificates representing such shares in exchange for certificates representing post-reverse stock split shares in accordance with the procedures to be set forth in the letter of transmittal we send to our stockholders. No new certificates will be issued to a stockholder until they have surrendered their outstanding certificate(s), together with the properly completed and executed letter of transmittal, to the exchange agent. Any pre-reverse stock split shares submitted for transfer, whether pursuant to a sale, other disposition or otherwise, will automatically be exchanged for post-reverse stock split shares. **STOCKHOLDERS SHOULD NOT DESTROY ANY STOCK CERTIFICATE(S) AND SHOULD NOT SUBMIT ANY CERTIFICATE(S) UNTIL REQUESTED TO DO SO.**

### **Federal Income Tax Consequences of the Reverse Stock Split**

The following is a summary of certain material federal income tax consequences of the charter merger and reverse stock split. This summary does not purport to be a complete discussion of all of the possible federal income tax consequences of the reverse stock split and is included for general information only. Further, it does not address any state, local or foreign income or other tax consequences. For example, the state and local tax consequences of the reverse stock split may vary significantly as to each stockholder, depending upon the state in which he or she resides. Also, it does not address the tax consequences to holders that are subject to special tax

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rules, such as banks, insurance companies, regulated investment companies, personal holding companies, foreign entities, nonresident alien individuals, broker-dealers, tax-exempt entities and stockholders who hold our capital stock as part of an integrated investment (including a straddle, pledge against currency risk, constructive sale or conversion transaction) comprised of shares of our capital stock and one or more other positions. The discussion is based on the provisions of the U.S. federal income tax law as of the date hereof, which is subject to change retroactively as well as prospectively. This summary also assumes that the pre-reverse stock split shares were, and the post-reverse stock split shares will be, held as a capital asset, as defined in the Code (i.e., generally, property held for investment). The tax treatment of a stockholder may vary depending upon the particular facts and circumstances of such stockholder. Each stockholder is urged to consult with such stockholder's own tax advisor with respect to the tax consequences of the reverse stock split.

Other than with respect to cash payments for fractional shares discussed above, no gain or loss should be recognized by a stockholder upon such stockholder's exchange of pre-reverse stock split shares for post-reverse stock split shares pursuant to the reverse stock split. The aggregate tax basis of the post-reverse stock split shares received in the reverse stock split (including any fraction of a post-reverse stock split share deemed to have been received) will be the same as the stockholder's aggregate tax basis in the pre-reverse stock split shares exchanged therefor. In general, stockholders who receive cash upon redemption of their fractional share interests in the post-reverse stock split shares as a result of the reverse stock split will recognize gain or loss based on their adjusted basis in the fractional share interests redeemed. The stockholder's holding period for the post-reverse stock split shares will include the period during which the stockholder held the pre-reverse stock split shares surrendered in the reverse stock split.

Our view regarding the tax consequence of the reverse stock split is not binding on the Internal Revenue Service or the courts. Accordingly, you should consult with your own tax advisor with respect to all of the potential tax consequences of the reverse stock split.

## **Recommendation of the Board of Directors**

Our board of directors has unanimously approved and adopted the agreement and plan of merger, between us and Eagle Oasis, Inc. and believes that the terms of the charter merger are in our best interests and those of our stockholders in order to authorize additional shares to complete the combination and the financing and to effect the reverse stock split in order to maintain our listing on The Nasdaq National Market. Our board of directors unanimously recommends that our stockholders vote FOR the approval of Proposal 2.

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**DESCRIPTION OF OUR BUSINESS**

**Overview**

We operate Internet Business Exchange ( IBX ) centers that serve as core hubs for the Internet. Our IBX hubs allow critical Internet networks, Internet infrastructure companies, enterprises and content providers to interconnect their networks to manage and grow their network and Internet operations for significant cost savings and increased performance and reliability. We have successfully united the major companies that make up the Internet under one roof. The world's top tier Internet Service Providers, the majority of the most important access networks and second tier carriers, many international carriers and 5 of the top 7 web properties all have located at our IBX hubs to directly connect with each other and their customers.

We provide a wide range of colocation, traffic exchange and multi-network management products and services to its customers. We build and manage premier colocation hubs, which offer state of the art design and security for customers' colocation needs. The colocation products include cabinets, power, cross connections and professional services for installation and maintenance. Traffic exchange services allow customers to trade network traffic with each other simply and easily. More than 80 major bandwidth providers and Internet service providers have placed their operations at our IBX hubs in order to interconnect with each other and with business users of network services. These customers include the world's top networks such as AT&T, WorldCom/UUNET, Sprint, Genuity, Cable&Wireless, Qwest, and Level 3. We are a neutral or "open" IBX environment because we do not operate our own network. As a result, we are able to offer direct interconnection to the largest aggregation of bandwidth providers and Internet service providers. This aggregation of providers attracts customers such as Associated Press, Charles Schwab, Electronic Data Systems, Ernst & Young Technologies, Google, IBM, Electronic Arts, MSN, Washingtonpost.Newsweek Interactive and Yahoo!. Direct interconnection to this aggregation of networks, which serve more than 90% of the world's Internet routes, allows our customers to significantly reduce costs, including the costs of purchasing circuits to reach partners in multiple locations, and significantly enhances the speed and reliability of their operations.

The wide variety of networks and business partners is an important reason why customers choose us, and customers look to Equinix to help manage this choice in order to simplify their operations. We have also introduced a suite of multi-network management services and will continue to provide new services to help customers maximize the advantage of multiple bandwidth and Internet service providers. These services include the management of multiple carriers and other interconnection products and services. For example, we offer customers access to bandwidth from multiple carriers and provides all of the necessary management and routing technology to ensure each customer is getting the maximum benefits of carrier redundancy. These routing technologies range from standard protocols to sophisticated route optimization technologies. We also provide customers monitoring tools so that customers have direct insight into how their operations are performing as well as backup and recovery services. All of these services provide customers with one simple point of contact for support, maintenance and billing. We will continue to introduce new services that customers can use to improve the overall performance of their operations including business continuity/disaster recovery services or new ways to more easily procure bandwidth services.

We currently have seven IBX hubs, consisting of more than 810,000 square feet, which operate in key United States Internet intersection points Washington, D.C., New York, Dallas, Chicago, Los Angeles and Silicon Valley areas. In addition, we have strategic partnerships established in Europe and Asia to serve customers' needs in those areas.

**Industry Background**

The Internet is a collection of numerous independent networks interconnected with each other to form a network of networks. Users on different networks are able to communicate with each other through interconnection between these networks. For example, when a user of the Internet sends an email to another user,



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assuming that each person uses a different network provider, the email must pass from one network to the other in order to get to the final destination.

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

The technologies employed at these early NAPs had some difficulties scaling with the overall growth of the Internet. This resulted in congestion at the NAPs and poorer performance seen by the enterprise and consumer user of the Internet. In addition, the original telephone companies that operated the NAPs entered the Internet bandwidth market, creating a conflict of interest with bandwidth providers and Internet service providers, or ISPs, who were NAP customers that also sold Internet bandwidth. This lack of neutrality made many of these ISPs reluctant to use the NAPs for their interconnection requirements, creating an urgent need for network-neutral interconnection points that could accommodate the rapidly growing Internet.

As the sophistication of Internet use increased, particularly with the development of e-commerce, reliability and security of the Internet core became of increasing concern to both Internet and enterprise companies worldwide. A very important change in the development of the Internet economy was the dominance of certain very large content providers, companies such as Microsoft, Yahoo!, America Online and others. The original NAPs were not designed to accommodate the increased reliability and security requirements of these types of growing Internet companies.

The emergence of these new companies, as well as the growing sophistication of larger enterprises understanding the value of controlling network performance, created the demand for a new type of Internet exchange point which included these new companies in the mix and allowed them direct interconnection with the networks and each other in a secure, simple and cost effective way. The need for a neutral, high-quality, secure exchange point for network traffic exchange continued to grow.

At the same time, the amount of traffic exchanged between the large networks at the NAPs continued to increase exponentially. To accommodate this growth, the largest of these networks left the NAPs and began trading traffic by placing private circuits between each other. Peering which once occurred at the NAP locations was moved to these private circuits. Over the years, these circuits became expensive to expand and could not be built fast enough to accommodate the growth in traffic. This led to a need by the large carriers to find a more efficient way to trade traffic or peer.

Our IBX hubs are the next-generation exchange points. They are designed to handle the scalability issues that exist between both large and small networks, as well as the interconnection between the emerging companies who have become critical to the Internet. Additionally, we provide an important industry leadership role in the area of exchange points and is consistently looked to as an industry expert and key influence in this arena.

We have been successful in uniting the major companies that make up the Internet infrastructure under one roof in each of six major U.S. markets, including AT&T, Genuity, Cable & Wireless, Level 3, Qwest and Sprint. These companies, which constitute the world's largest top Internet service providers, together with most of the major access networks, including SBC, Earthlink, Cox Communications, Comcast Corporation, America Online and MSN, second tier backbones such as TeleGlobe, Williams and Dynergy, many international telecommunications carriers, including Deutsche Telecom, France Telecom, Singapore Telecom, Japan Telecom, British Telecom, Bell Canada, Telia and Telstra, and almost every fiber, sonet, Ethernet and competitive local exchange company, including OnFiber Communications, Yipes, Looking Glass Networks and Cogent

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Communications, and incumbent local exchange company, including Verizon, SBC and Ameritech, are our customers and use us to interconnect with each other and their customers.

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

### **Our Solution**

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

*Performance.* Because we provide direct access to the providers that serve more than 90% of the world's Internet networks and users, customers can quickly, efficiently, cost-effectively and reliably exchange traffic with their network services providers for higher performance operations. Access to the more than 80 networks ensures high-quality interconnection. Our Internet exchange services enable customers to quickly and efficiently use multiple networks for service redundancy and reliability. By using multiple networks, customers are able to insure their operations in the event that one of their network service providers has a service interruption or restructuring in the business. The network service providers and geographic diversity we offer provides customers with the flexibility to enable the highest performing Internet operations.

*Improved Economics.* Our services such as Equinix GigE Exchange and Equinix Internet Core Exchange facilitate peering and dramatically reduce costs for critical transit, peering and traffic exchange operations by eliminating the costs of private peering or local loops. Networks such as SBC and Shaw Communications and content providers such as Yahoo!, MSN and Google can save between 20% to 40% of bandwidth costs through the traffic exchange services we offer. In addition, the content companies and enterprises can also save significant bandwidth costs because the magnitude of networks competing for the traffic of these companies lowers prices and increases performance.

*Opportunity to Increase Revenues.* Our IBX hubs present a large revenue opportunity for network service providers and Internet infrastructure services providers selling services in our hubs due to the concentration of networks, managed service providers, content and enterprise companies that have a presence in them.

### **Our Strategy**

Our objective is to become the premier hub for critical Internet players to locate their operations in order to gain maximum benefits from the choice of networks and partners in the most simple and efficient manner. To accomplish this objective we employ the following strategies:

*Leverage the Network Effect.* 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. In addition, as these companies locate in our IBX hubs, they often require their suppliers and business partners to do so as well so that the full economic and performance benefits of direct interconnection can occur. These partners in turn also pull in their business partner, thus creating a network effect of customer adoption. For example, a large content provider or network may require that their networking partners with whom they need to trade traffic with locate in the same IBX hub. Similarly, a large financial site that chooses to locate in one of our IBX hubs may encourage a bandwidth provider, a site management company or another content partner, like a financial news service, to also locate in the same IBX hub. In turn, these bandwidth providers or content partners will also bring their business partners to the IBX hub. We have 80 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.

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*Leverage IBX Hubs for New Products and Services.* The critical mass of leading networks that we have assembled across all of our IBX hubs uniquely positions our IBX hubs as the place to be for critical Internet companies. We intend to leverage this position and offer additional traffic exchange and multi-network management services that are important to content peering, traffic exchange and the ability for enterprise companies to utilize multiple Internet service providers.

*Promote our IBX hubs as the Highest Performance Points on the Internet.* With all of the major U.S. carriers, five of the top seven web properties, and the more than 80 total networks as customers, our IBX hubs operate as the highest performance points on the Internet for network and Internet operations. We plan to leverage our position as the industry standard for the highest quality Internet exchange hubs to attract more networks including international telecommunications carriers, access and cable networks, as well as additional leading content companies. We have gained a strong brand following in the networking community and through industry education and promotion we intend to build on our strong following among all top networks, managed services providers, enterprises and content providers.

### **Customers**

Customers typically sign renewable contracts of two or more years in length, often with options on additional space and services. Approximately 31% of our participant base has signed multi-site contracts. Our single largest customer, IBM, represented approximately 19% of total revenues for the nine months ended September 30, 2002. No other single customer accounted for more than 10% of revenues for the nine months ended September 30, 2002.

We consider the following companies to be the core of our customer base and we offer each customer a choice of business partners and solutions that are designed to meet their unique and changing needs:

Bandwidth providers (telecommunications carriers) and internet service providers, or ISPs;

Enterprises, content providers and e-commerce companies supplying information, education or entertainment content and conducting the sale of goods and services; and

Site management and hosting companies that integrate and manage a customer's end-to-end web presence and performance.

### **Products and Services**

Our products and services are comprised of three types: Colocation, Traffic Exchange and Multi-Network Management services.

#### **Colocation Services**

The Equinix IBX design provides our customers with reliable and disaster-resistant environments that are necessary for optimum Internet commerce interconnection. The level of excellence and consistency achieved in our IBX architecture and design results in premium, secure, fault-tolerant exchanges. Additionally, our IBX hubs include multiple layers of physical security, scalable cabinet space availability, on-site trained staff 24 hours per day, 365 days per year, dedicated areas for customer care and equipment staging, redundant AC/DC power systems and multiple other redundant, fault-tolerant infrastructure systems. We currently have seven IBX hubs located in six key U.S. Internet intersection points—Washington, D.C., New York, Dallas, Chicago, Los Angeles and Silicon Valley areas.

Within our IBX hubs, customers can place their equipment and interconnect with a choice of Internet companies. We also provide customized solutions for customers looking to package our IBX space as part of their complete, one-stop shop solution. Our colocation products and services include:

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*Cabinets.* Customers have several choices for colocating their equipment. They can place the equipment in one of our shared or private cages or customize their space to build their own data hub within an IBX hub. Cabinets are 84 inches high and are suitable for networking and server colocation. Cable trays support cables between and among cabinets. As a customer's colocation requirements increase, they can expand within their original cage or upgrade into a cage that meets their expanded requirements. Cabinets are priced with an initial installation fee and an ongoing recurring monthly charge.

*Shared Cages.* A shared cage environment is designed for customers needing less than five full cabinets to house their equipment. Each cabinet in a shared cage is individually secured with an advanced electronic locking system and the cage itself is secured with the biometric hand-geometry system.

*Private Cages.* Customers that contract for a minimum of five full cabinets can use a private cage to house their equipment. Private cages are also available in larger full cabinet sizes. Each private cage is individually secured with the biometric hand-geometry system.

*IBXflex.* This service allows customers to deploy mission-critical operations personnel and equipment on-site at IBX hubs. Because of the close proximity to their end-users, IBXflex customers can offer a faster response and quicker troubleshooting than available in traditional colocation facilities. This service is priced with an initial installation fee and an ongoing recurring monthly charge.

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

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

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

## **Traffic Exchange Services**

Our traffic exchange services enable scalable, reliable and cost-effective interconnection, service and traffic exchange between bandwidth providers, Internet service providers and large content companies. In addition, we also provide an important industry leadership role by acting as the relationship broker between parties who would like to interconnect within our IBX hubs. Our staff has held significant positions in the leading industry groups such as the North American Network Operators Group, or NANOG, and the Internet Engineering Task Force, or IETF, and brings a tremendous amount of intellectual property to this market. Our staff has published industry-recognized white papers and strategy documents in the areas of peering and interconnection, many of which are used by leading institutions worldwide in furthering the education and promotion of this important network arena. We will continue to develop additional services in the area of traffic exchange that will allow customers to leverage the critical mass of networks now available in the IBX hubs. The current exchange services are comprised of the following:

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

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

### **Multi-Network Management Services**

With the continued growth in Internet use, networks, service providers, enterprises and content providers are challenged to deliver fast and reliable service, while lowering costs. With over 80 ISPs and carriers located in our IBX hubs, we leverage the value of network choice with our set of multi-network management services. This set of services provides enterprise and content providers with the ability to gain maximum benefits from the use of the networks in a simple and efficient manner.

*Equinix Managed Router Service.* With Equinix Managed Router Service, enterprises and content companies can outsource the complications of network integration, such as multi-homing, to us in order to gain the performance and redundancy benefits of connecting to multiple networks. This service allows companies that do not have the internal expertise to configure Border Gateway Protocol ( BGP ) settings to focus on their core competencies while we manage their connectivity to the customer's choice of networks. In addition, the service includes router management, administration and network service provisioning. This service is priced with an initial installation fee and an ongoing recurring monthly charge.

*Equinix Intelligent Routing Service.* Equinix Intelligent Routing Service is a managed route optimization service that consists of a software and infrastructure platform that allows customers to tune their networks to balance price and performance priorities by routing traffic across the lowest-priced path that meets performance requirements. The traffic is measured and routed based on real-time customer traffic across the customer's choice of networks. Offered as a managed service, Equinix Intelligent Routing Service allows customer to reduce bandwidth costs without a large hardware or software investment. This service is priced based upon the amount of traffic a customer is optimizing.

*Equinix Command Center.* Through managed software architecture, Equinix Command Center allows customers to self-monitor, manage and control applications, network devices, systems resources and user transactions. This service provides our customers with direct control over infrastructure performance and service level agreements. The service features network monitoring and management, aggregated information across multiple IBX hubs, browser-based access to detailed monitoring, and a single point of contact for support and billing. This service is priced based upon the number of items a customer monitors and is billed monthly.

*International Partnerships.* We have signed agreements with leading international Internet exchange providers InterXion in Europe and Pihana in Asia/Pacific in order to provide our customers with a more comprehensive global solution for their Internet infrastructure and network exchange needs.

As part of these partnership agreements, our customers can leverage Internet infrastructure services across 29 network-neutral centers in the United States, Europe and Asia/Pacific markets. In these markets, our customers have access to the essential Internet infrastructure services they need to quickly and cost-effectively build their Internet operations worldwide, while realizing significant performance gains through a network-neutral environment.

### **Sales and Marketing**

*Sales.* We use a direct sales force and channel marketing program to market our services to network, content provider, enterprise and Internet infrastructure businesses. We organize our sales force by customer

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segments as well as by establishing a sales presence in diverse geographic regions, which enables efficient servicing of the customer base from a network of regional offices. In addition to our headquarters office in Silicon Valley, regional offices are located in New York City, Reston, Los Angeles, Dallas and Chicago. In addition, we also have over 40 channel partners that work with us through referral agreements to provide customer leads and relationships.

Our sales team works closely with each customer to foster the natural network effect of our IBX model, resulting in access to a wider potential customer base via our existing customers. As a result of the IBX interconnection model, IBX hub participants encourage their customers, suppliers and business partners to also come into the IBX hubs. These customers, suppliers and business partners also, in turn, encourage their business partners to locate in IBX hubs resulting in additional customer growth. This network effect significantly reduces our new customer acquisition costs.

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

### **Competition**

Our potential competition includes:

*Internet data centers operated by established communications carriers such as AT&T, Level 3, and Qwest.* Unlike the major network providers, which constructed data centers primarily to help sell bandwidth, we have aggregated multiple networks in one location, providing superior diversity, pricing and performance. Carrier data centers only provide one choice of carriers and require capacity minimums as part of their pricing structures. Locating in our IBX hubs provides access to all the top tier networks and allows customers to negotiate the best prices with a number of carriers resulting in better economics and redundancy.

*Network access points ( NAPs ) such as Palo Alto Internet Exchange and carrier operated NAPs.* NAPs, generally operated by carriers, are typically older facilities and lack the incentive to upgrade the infrastructure or technologies. Due to their small size and lack of geographic diversity, the NAPs are limited to basic traffic exchange services and are unable to expand to colocation services, content peering or enterprise grade network services. In contrast, we provide state-of-the-art, secure facilities and geographic diversity with round the clock support and a full range of network and enterprise service offerings.

*Vertically integrated web site hosting, colocation and ISP companies such as AboveNet/MFN, Digex/WorldCom and Exodus/Cable&Wireless.* Most managed service providers require that customers purchase their entire network and managed services directly from them. We are a network and service provider aggregator and because we do not offer web hosting services ourselves, we allow customers the ability to contract directly with the networks and web hosting partner best for their business. By locating in an IBX center, hosting companies add more value to our business proposition by bringing in more partners and customers and thus creating a network effect.

Unlike other providers that attempted to move into managed services and therefore began competing with their existing managed service provider customers, we focused on neutral Internet Business Exchanges for

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networks, e-businesses, and Internet infrastructure service providers. As a result, we are free of the channel conflict common at other hosting/colocation companies. We compete based on the quality of our facilities, the superior performance and diversity of our network neutral strategy, and the economic benefits of the network effect through the aggregation of top networks and e-businesses under one roof. Specifically, we have established relationships with a number of leading hosting companies such as IBM (our largest customer) and EDS. We expect to continue to benefit from the strong growth of the large and stable service providers and from the flight to quality trend evident in today's market.

### **Employees**

As of September 30, 2002, we had 269 employees. We had 169 employees based at our corporate headquarters in Mountain View, California and our regional sales offices in New York, New York and Reston, Virginia. Of those employees, 73 were in engineering and operations, 56 were in sales and marketing and 40 were in management and finance. The remaining 100 employees were based at our Washington, D.C., New York, New York, Dallas, Texas, Chicago, Illinois, Los Angeles, California and Silicon Valley area IBX hubs.

### **Facilities**

Our executive offices are located in Mountain View, California. We have entered into leases for IBX hubs in Ashburn, Virginia, Newark and Secaucus, New Jersey, San Jose and Los Angeles, California, Chicago, Illinois and Dallas, Texas. In addition, we hold a ground leasehold interest in certain unimproved real property in San Jose, California. In September 2002, we exercised an option to reduce our ground leasehold interest in San Jose, California, from approximately 79 acres to 40 acres. Relating to future IBX hubs, we do not intend to own real estate or buildings but rather continue to enter into lease agreements with a minimum term of ten years, renewal options and rights of first refusal on space for expansion.

During the quarter ended September 30, 2001, we took a restructuring charge related to a revised European services strategy to partner with other Internet exchange companies in Europe rather than build and operate our own centers outside the U.S. In addition, the restructuring charge included the anticipated exit of several smaller, excess U.S. leaseholds. As a result, we successfully negotiated our exit from leases for properties in Paris, France during 2001, Amsterdam, The Netherlands and London, United Kingdom in February 2002 and Frankfurt, Germany in April 2002. Additionally, we negotiated the exit of certain leases in Mountain View, California and we continue to attempt the exit of a non-operating, undeveloped IBX hub in Ashburn, Virginia.

### **Legal Proceedings**

On July 30, 2001 and August 8, 2001, putative shareholder class action lawsuits were filed against us, certain of its officers and directors, and several investment banks that were underwriters of our initial public offering. The cases were filed in the United States District Court for the Southern District of New York, purportedly on behalf of investors who purchased our stock between August 10, 2000 and December 6, 2000. The suits allege that the underwriter defendants agreed to allocate stock in our initial public offering to certain investors in exchange for excessive and undisclosed commissions and agreements by those investors to make additional purchases in the aftermarket at pre-determined prices. The plaintiffs allege that the prospectus for our initial public offering was false and misleading and in violation of the securities laws because it did not disclose these arrangements. It is possible that additional similar complaints may also be filed. We and our officers and directors intend to defend the actions vigorously. On October 9, 2002, as part of an agreement with the plaintiffs in such lawsuits, all claims against our officers and directors were dismissed without prejudice.

Under our loan agreement with Wells Fargo, the Company is required to maintain a minimum cash balance at all times. As of June 30, 2002, the Company was not in compliance with this requirement. The Company has not obtained a waiver for this requirement and the bank has rejected a discounted settlement offer. Wells Fargo has filed a lawsuit against the company seeking to force the Company to obtain a letter of credit in the full

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amount of the outstanding balance of the Wells Fargo loan. As a result, the Company has reflected the full amount outstanding under this facility totaling \$1,631,000 as a current obligation on the accompanying balance sheet as of September 30, 2002. In September 2002, Wells Fargo obtained a writ of attachment to secure payment of the full amount due under its facility, in the event it prevails on its claim against the Company. Wells Fargo has not yet filed a motion for summary judgment however it has requested, and the court has granted, a hearing date for the lender's motion on this matter of December 19, 2002. The Company intends to file a reply to the motion for summary judgment and to defend against Wells Fargo's lawsuit.



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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF EQUINIX**

**Overview**

We design, build and operate neutral IBX hubs where Internet businesses place their equipment and their network facilities in order to interconnect with each other to improve Internet performance. Our neutral IBX hubs and Internet exchange services enable network service providers, enterprises, content providers, managed service providers and other Internet infrastructure companies to directly interconnect with each other for increased performance. As of September 30, 2002, we had IBX hubs totaling an aggregate of 810,000 gross square feet in the Washington, D.C., New York, Dallas, Chicago, Los Angeles and Silicon Valley areas.

*Recent Developments.* In September 2002, we exercised an option we had purchased in May 2002 and reduced our obligation under our San Jose ground lease by approximately one-half. In connection with the exercise of this option, we permitted the landlord to unconditionally draw down on the full \$25.0 million in letters of credit that had been posted as security for our San Jose ground lease and had been classified as restricted cash and short-term investments on the accompanying balance sheets as of December 31, 2001. The Company recorded a restructuring charge of \$19.0 million and the remaining portion of the letters of credit, representing approximately \$6.0 million, was recorded as prepaid rent. The \$6.0 million prepaid rent is the fair value of the lease payments for the 15 month period commencing October 1, 2002 to December 31, 2003. The prepaid rent represents the total payments that would have otherwise been paid during this period. The prepaid rent will be amortized ratably over this 15 month period.

In October 2002, we entered into the combination agreement and securities purchase agreement for the combination and the financing, respectively. These proposed transactions will result in the combination of Equinix's business with that of i-STT and Pihana. i-STT's operations are, and are expected to continue to be, essentially break-even. Although Pihana's centers are expected to operate at a loss for approximately 24 months following the closing of the combination, Pihana is expected to have approximately \$25.0 million in cash at closing, which we believe will be sufficient cash to offset its centers' projected loss for this period.

In addition, by combining these businesses, we expect to be able to reduce the annual operating expenses of the combined company by \$10-15 million. This will be done through the elimination of duplicate corporate overhead costs, specifically including the closing of Pihana's corporate headquarters, and a reduction in headcount of the combined companies of nearly 20%, primarily in the general and administrative areas. Furthermore, by using a portion of the cash raised in the proposed transactions to reduce a significant portion of our debt, we expect to reduce the annual cash interest expense of the combined company by over \$15 million.

We expect the combined company to have approximately \$30.0 million of cash as of December 31, 2002. As a result, we believe the combined company is fully-funded and, provided we are able to realize the projected cost-savings and experience sufficient revenue growth, we currently expect to become cash flow break-even from operating, investing and financing activities within 18 months of closing the proposed transactions. Although we expect the combined company to have sufficient cash to reach cash flow break-even from operating, investing and financing activities, we will continue to look for opportunities to raise additional capital to provide the combined company with greater operating flexibility.

In addition, in connection with the proposed combination and financing we currently have obtained offers from the holders of \$103.7 million of our outstanding senior notes whereby such holders have agreed to tender their senior notes to us for a combination of common stock and cash and to amend the terms of the indenture governing our senior notes. This will result in the recognition of a substantial gain in the period the outstanding debt is extinguished.

In connection with the combination, financing and the senior note exchange, we entered into discussions with our senior lenders on the principal terms for a further amendment to our credit facility, and such lenders

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have agreed to recommend the terms of a further amendment to their committees. The most significant terms and conditions of the proposed amendment are:

we will be granted a full waiver of previous covenant breaches and will be granted consent to use a minimum of \$15.0 million cash to retire our senior notes;

future revenue and EBITDA covenants will be eliminated and the remaining covenants and ratios will be reset consistent with the future performance of the combined company for the remaining term of the loan;

we will permanently repay \$7.5 million of the currently outstanding \$100.0 million; and

the amortization schedule for our credit facility will be amended such that the minimum amortization due in 2002-2004 will be significantly reduced and some amortization will be extended to 2006.

We currently anticipate that a final amendment will be put in place prior to the closing of the proposed transaction. This amendment will be subject to the closing of the combination, the financing and the senior note exchange.

We do not currently have sufficient cash reserves or alternate financing available to repay the amount outstanding under the credit facility. If we are unable to complete the proposed combination, financing and senior note exchange, we will again be in breach of the covenants contained in our credit facility.

Because we cannot be certain that we will complete the proposed combination, financing and senior note exchange, or that we will obtain a final amendment from our senior lenders, we have classified the full amount outstanding under our credit facility of \$100.0 million as a current debt obligation on the accompanying balance sheet as of September 30, 2002.

*Risks and Uncertainties.* Our financial results have been prepared assuming we will continue as a going concern. Since inception, we have experienced operating losses and negative cash flow. As of September 30, 2002 we had an accumulated deficit of \$412.4 million and accumulated cash used in operating and construction activities of \$692.3 million. Given our limited operating history, we may not generate sufficient revenue to achieve desired profitability. We therefore believe that we will continue to experience operating losses for the foreseeable future. As of September 30, 2002 we had \$11.6 million of cash and cash equivalents. We currently do not believe that this cash is sufficient to meet our debt service, working capital and corporate overhead requirements during the next six months. As a result, our auditors have raised substantial doubt about our ability to continue as a going concern.

Assuming we are able to complete the combination, the financing and the senior note exchange by December 31, 2002, we anticipate that the combined company will have approximately \$30.0 million of cash at closing. We believe this cash, together with cash flow generated from our IBX hubs will be sufficient to meet our debt service, working capital and corporate overhead requirements associated with our future operations. However, there can be no assurances that we will be able to complete the combination, the financing and the senior note exchange. In the event we are unable to complete the combination, the financing and the senior note exchange, we will most likely seek bankruptcy protection. The potential for a future covenant breach and the resultant acceleration of the outstanding borrowings in the current financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might arise should we be unable to continue as a going concern. See *Risk Factors* beginning on page 24.

**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.

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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;

Stock-based compensation;

Restructuring charges;

Accounting for income taxes;

Contingent liabilities; and

Accounting for property and equipment.

*Revenue Recognition and Allowance for Doubtful Accounts.* We derive our revenues from (a) recurring revenue streams, such as from the leasing of cabinet space, power and interconnection services and (b) non-recurring revenue streams, such as from the recognized portion of deferred installation revenues, professional services and resale of equipment and bandwidth. Revenues from recurring revenue streams are billed monthly and recognized ratably over the term of the contract, generally one to three years. Non-recurring installation fees are deferred and recognized ratably over the term of the related contract. Professional service fees are recognized in the period in which the services were provided and represent the culmination of the earnings process. We generally guarantee 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. The Company has the ability to determine such service level credits prior to the associated revenue being recognized, and historically, these service level credits have not been significant.

Revenue is recognized as service is provided and when there is persuasive evidence of an arrangement, the fee is fixed or determinable and collection of the receivable is reasonably assured. We assess collection based on a number of factors, including past transaction history with the customer and the credit-worthiness of the customer. We do not request collateral from our customers. If we determine that collection of a fee is not reasonably assured, we defer the fee and recognize revenue at the time collection becomes reasonably assured, which is generally upon receipt of cash. In addition, we also maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. 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 for revenue we had previously expected to collect. Management specifically analyzes accounts receivable and analyzes current economic news and trends, historical bad debts, customer concentrations, customer credit-worthiness and changes in customer payment terms when evaluating revenue recognition and the adequacy of our allowances.

Our customer base is primarily composed of businesses throughout the U.S. We perform ongoing credit evaluations of our customers. For the nine months ended September 30, 2002, one customer, IBM, accounted for 19% of revenues, and as of September 30, 2002, this same customer accounted for 14% of accounts receivable. For the nine months ended September 30, 2001, one customer, IBM, accounted for 15% of revenues, and as of September 30, 2001 two customers, IBM and Cable and Wireless, accounted for 16% and 11%, respectively, of accounts receivable. As of December 31, 2001, one customer, IBM, accounted for 15% of annual revenues and another customer, SiteSmith, accounted for 10% of accounts receivable. As of December 31, 2000, two customers, IBM and Loudcloud (now known as Opsware), accounted for 12% and 11% of annual revenues, respectively, and two customers, IBM and UUNET, accounted for 19% and 14% of accounts receivable,

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respectively. No other single customer accounted for greater than 10% of accounts receivable or nine month or annual revenues for the periods presented.

During the year ended December 31, 2001, we recognized approximately \$200,000 of revenue in relation to equipment received from customers in lieu of cash. This equipment is being used in our operations and was valued based on management's assessment of the fair value of the equipment in relation to external prices for similar equipment.

While we do not anticipate significant future equipment sales, in 2002, we entered into arrangements with numerous vendors to resell equipment and bandwidth. We began to offer such offering in an effort to provide our customers with a more fully integrated services solution. For the nine months ended September 30, 2002, we recognized gross revenue of \$2.9 million in connection with these reseller agreements as we acted as the primary obligor in these transactions.

*Stock-Based Compensation.* We recorded deferred stock-based compensation in connection with stock options granted during 2000 and 1999, where the deemed fair market value of the underlying common stock was subsequently determined to be greater than the exercise price on the date of grant. Approximately \$5.6 million and \$16.0 million was amortized to stock-based compensation expense for the nine months ended September 30, 2002 and 2001, respectively, and approximately \$19.0 million, \$29.9 million and \$6.6 million was amortized to stock-based compensation expense for the periods ended December 31, 2001, 2000 and 1999, respectively. The options granted are typically subject to a four-year vesting period. We are amortizing the deferred stock-based compensation on an accelerated basis over the vesting periods of the applicable options in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 28. The remaining \$4.2 million of deferred stock-based compensation will be amortized over the remaining vesting periods. We expect amortization of deferred stock-based compensation expense to impact our reported results through December 31, 2004.

*Restructuring Charges.* During the third quarter of 2001 and the second and third quarter of 2002, we recorded restructuring charges, primarily due to our revised European services strategy and exit costs related to excess leaseholds. These restructuring charges were comprised primarily of write-downs and write-offs of assets and accrued unfavorable lease commitments and related lease exit costs. The amount of the restructuring charges we recorded was based on our estimates of how long it would take to successfully negotiate lease terminations for the leaseholds we desired to exit and the related exit costs. Should the actual lease exit costs and other accrued restructuring charges exceed the amount accrued, additional restructuring charges may be required, which would decrease net income in the period such determination was made. Conversely, if actual lease exit and other restructuring charges are less than the amount accrued, an adjustment to accrued restructuring charges would be required, which would increase income in the period such determination was made. See Recent Accounting Pronouncements for a discussion of Accounting for Costs Associated with Exit or Disposal Activities.

*Accounting for Income Taxes.* Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when necessary to reduce tax assets to the amounts expected to be realized.

We currently have provided a full valuation allowance against its net deferred tax assets. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance. Based on the available objective evidence, management believes it is more likely than not that the net deferred tax assets will not be fully realizable. Should we determine that we would be able to

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realize our deferred tax assets in the foreseeable future, an adjustment to the deferred tax assets would increase income in the period such determination was made.

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

*Accounting for Property and Equipment.* Property and equipment are stated at original cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, generally two to five years for non-IBX hub equipment and seven to ten years for IBX hub equipment. Leasehold improvements and assets acquired under capital lease are amortized over the shorter of the lease term or the estimated useful life of the asset or improvement. In addition, we have capitalized certain interest costs during the construction phase. Once an IBX hub becomes operational, these capitalized costs are depreciated at the appropriate rate consistent with the estimated useful life of the underlying asset. We have issued numerous warrants to certain fiber carriers and our primary contractor. We use the Black-Scholes option-pricing model to value these warrants. The value attributed to these warrants are included in our property and equipment and classified as a leasehold improvement. Amortization of such warrants is included in depreciation expense.

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, 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.

**Results of Operations***Nine Months Ended September 30, 2002 and 2001*

*Revenues.* We recognized revenues of \$58.4 million for the nine months ended September 30, 2002, as compared to revenues of \$45.9 million for the nine months ended September 30, 2001. Revenues consisted of recurring revenues of \$47.8 million and \$42.3 million, respectively, for the nine months ended September 30, 2002 and 2001, primarily from the leasing of cabinet space. Non-recurring revenues were \$10.6 million and \$3.6 million, respectively, for the nine months ended September 30, 2002 and 2001, primarily related to one-time settlement fees associated with certain customer right-sizing or contract terminations and the recognized portion of deferred installation revenue and custom service revenues. One-time settlement fees recognized during the nine months ended September 30, 2002 totaled approximately \$4.5 million, including a \$2.8 million one-time settlement with Qwest received in the third quarter of 2002, and \$500,000 for the corresponding period in 2001. Installation and service fees are recognized ratably over the term of the contract. Custom service revenues are recognized upon completion of the services. One-time settlement fees are recognized upon contract termination. In February and March 2002, we entered into equipment reseller agreements with two related party companies. Included within the \$10.7 million of non-recurring revenues for the nine months ended September 30, 2002, were \$2.9 million of equipment sales resulting from these two equipment reseller agreements. There were no equipment sales in the nine months ended September 30, 2001. Excluding equipment sales, we recognized revenues of \$55.4 million for the nine months ended September 30, 2002 as compared to revenues of \$45.9 million for the nine months ended September 30, 2001, a 21% increase.

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The period over period growth in revenues was primarily the result of one-time settlement fees associated with certain customer right-sizing or contract terminations and an increase in orders from existing customers and growth in our customer base from 191 customers as of September 30, 2001 to 266 customers as of September 30, 2002. However, this growth in our customer base is partially offset by a number of our larger customers reducing the size of their contractual commitments to us. We refer to this effort as the right-sizing of our larger customer contracts. During the past year, we have proactively worked with certain of our larger customers to right-size their contractual commitments to help them better react to a slowdown in customer demand as a result of weaker economic conditions. Although these right-sizing efforts often result in a reduction in the number of cabinets these customers are obligated to pay for, many of these right-sizing efforts have resulted in the customer extending the term for the remaining cabinets. As a result, although the short-term recurring revenues from such customers are reduced, the overall contract value often remains intact and the relationship with the customer is preserved, if not improved. As of September 30, 2002, we had successfully completed the right-sizing of most of our customers that had more than 100 cabinets booked, a booking level that represents our larger customers. These right-sizing efforts have, over the past several quarters, been netted out against our new customer cabinet bookings, limiting our overall revenue growth during the past five quarters.

*Cost of Revenues.* Cost of revenues increased to \$78.6 million for the nine months ended September 30, 2002 from \$74.6 million for the nine months ended September 30, 2001. These amounts included \$35.1 million and \$30.0 million, respectively, of depreciation expense and \$216,000 and \$412,000, respectively, of stock-based compensation expense. In addition to depreciation and stock-based compensation, cost of revenues consists primarily of rental payments for our leased IBX hubs, site employees' salaries and benefits, utility costs, power and redundancy system engineering support services and related costs and security services. Furthermore, cost of revenues for the nine months ended September 30, 2002 included the costs associated with \$2.9 million in equipment sales we recorded, which was approximately \$2.8 million. Excluding depreciation, stock-based compensation expense and the costs of equipment sales, cash cost of revenues decreased period over period to \$40.5 million for the nine months ended September 30, 2002 from \$44.2 million for the nine months ended September 30, 2001, an 8% decrease. Cash cost of revenues for the nine months ended September 30, 2001 included costs related to our European expansion plans. Due to the restructuring charge that we recorded in the third quarter of 2001, these costs were not in our cash cost of revenues for the nine months ended September 30, 2002; however, these savings were partially offset by the additional costs incurred from (a) our newest and largest IBX hub opened during the first quarter of 2002 in the New York metropolitan area and (b) the costs associated with the ramp-up of our existing IBX hubs. In September 2002, we exercised an option to reduce the monthly operating costs under the San Jose ground lease by approximately one-half commencing October 2002. We anticipate that the costs associated with our new IBX hub and the continued ramp-up of our other existing IBX hubs, will continue to increase in the foreseeable future; however, the cost savings resulting from the elimination of approximately half of the San Jose ground lease costs commencing in October 2002 will more than offset these cost increases, resulting in an overall decrease in cost of revenues for the foreseeable future.

*Sales and Marketing.* Sales and marketing expenses decreased to \$12.2 million for the nine months ended September 30, 2002 from \$13.3 million for the nine months ended September 30, 2001. These amounts included \$802,000 and \$2.3 million, respectively, of stock-based compensation expense. In addition, we recorded \$2.3 million in bad debt expense for the nine months ended September 30, 2002, as compared to \$192,000 recorded in the prior period. This substantial increase in bad debt expense was primarily the result of full provisions against aged receivables associated with two customers, Teleglobe and WorldCom, both of which have recently filed for bankruptcy protection under Chapter 11 of the U.S. Bankruptcy Code. Excluding stock-based compensation and bad debt expense, cash sales and marketing costs decreased to \$9.0 million for the nine months ended September 30, 2002 from \$10.7 million for the nine months ended September 30, 2001, a 16% decrease. Sales and marketing expenses consist primarily of compensation and related costs for sales and marketing personnel, sales commissions, marketing programs, public relations, promotional materials and travel. The decrease in sales and marketing expenses is the result of several cost saving initiatives that we undertook, including some staff reductions and an overall decrease in discretionary spending. We continue to closely monitor our spending in all areas as a result of the current market conditions. Accordingly, we do not expect our

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cash sales and marketing costs to increase significantly in the foreseeable future, until such time as we reach pre-determined levels of profitability.

*General and Administrative.* General and administrative expenses decreased to \$22.7 million for the nine months ended September 30, 2002 from \$47.0 million for the nine months ended September 30, 2001. These amounts included \$4.6 million and \$13.3 million, respectively, of stock-based compensation expense and \$4.4 million and \$6.5 million, respectively, of depreciation expense, resulting in a 50% decrease in period over period cash spending. General and administrative expenses consist primarily of salaries and related expenses, accounting, legal and administrative expenses, professional service fees and other general corporate expenses. The significant decrease in general and administrative expenses was primarily the result of several cost saving initiatives that we undertook, including staff reductions and an overall decrease in discretionary spending. We continue to closely monitor our spending as a result of the current market conditions. Accordingly, while we expect to see some fluctuations in our cash general and administrative costs in future quarters, we do not expect our general and administrative costs to increase significantly in the foreseeable future as compared to comparable periods in the prior year, until such time as we reach pre-determined levels of profitability.

*Restructuring Charges.* During the nine months ended September 30, 2002, we recorded restructuring charges of \$29.0 million. The restructuring charges consisted of (a) a \$5.0 million option fee paid in May 2002 related to the amendment of our approximately 80 acre ground lease in San Jose, California from which we subsequently elected to exercise the option to permanently exclude 40 acres commencing October 1, 2002; (b) a write-off of property and equipment of \$2.6 million, primarily leasehold improvements and some equipment, located in two unnecessary U.S. IBX expansion and headquarter office space operating leaseholds we had decided to exit and that do not currently provide any ongoing benefit; (c) a write-off of two U.S. letters of credit totaling \$750,000 related to one U.S. operating leasehold we had committed to exit; (d) an accrual of \$1.0 million related to the remaining estimated European exit costs; (e) an accrual of \$500,000 severance charges related to a less than 10% reduction in workforce in an effort to reduce the cost structure of our corporate headquarter function; (f) an accrual of \$115,000 related to additional U.S. leasehold exit costs and (g) a partial write-off of two letters of credit totaling \$19.0 million associated with the exercise in September 2002 of our option to permanently terminate approximately one-half of our lease obligations under the San Jose ground lease.

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

As of September 30, 2002, a total restructuring reserve of \$1.6 million remained outstanding for all accrued but unpaid restructuring charges. We expect to realize the cost savings benefits resulting from the partial San Jose ground lease termination in cost of revenues beginning in October 2002.

*Interest Income.* Interest income decreased to \$961,000 from \$9.5 million for the nine months ended September 30, 2002 and 2001, respectively. Interest income decreased due to lower cash, cash equivalent and short-term investment balances held in interest bearing accounts and lower interest rates received on those invested balances.

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*Interest Expense.* Interest expense decreased to \$26.4 million from \$32.9 million for the nine months ended September 30, 2002 and 2001, respectively. The decrease in interest expense was attributable to the retirement of \$52.8 million of our senior notes during the first half of 2002 and to the decline in both the principal due and the interest rates associated with our credit facility.

*Gain on Debt Extinguishment.* During the first half of 2002, we retired \$52.8 million of our senior notes in exchange for approximately 16.0 million shares of our common stock and approximately \$2.5 million of cash. As a result, we recognized a \$27.2 million gain on debt extinguishment.

*Years ended December 31, 2001 and December 31, 2000*

*Revenues.* Revenues increased from \$13.0 million for the year ended December 31, 2000 to \$63.4 million for the year ended December 31, 2001. Revenues consist of recurring revenues of \$57.6 million for 2001, versus \$11.6 million for 2000, primarily from the leasing of cabinet space, and non-recurring revenues of \$5.8 million for 2001, versus \$1.4 million for 2000, related to the recognized portion of deferred installation revenue and custom service revenues. Installation fees are recognized ratably over the term of the contract. Custom service revenues are recognized upon completion of the services. Revenues increased year over year because we had more IBX hubs open and operational during 2001 than we had during 2000. We expect revenues to continue to increase as our customer base continues to grow and as a result of opening our newest and largest IBX hub in the New York metropolitan area during the first quarter of 2002.

*Cost of Revenues.* Cost of revenues increased from \$43.4 million for the year ended December 31, 2000 to \$94.9 million for the year ended December 31, 2001. These amounts include depreciation and amortization expense of \$11.5 million and \$40.0 million, respectively. In addition to depreciation and amortization, cost of revenues consists primarily of rental payments for our leased IBX hubs, site employees' salaries and benefits, utility costs, power and redundancy system engineering support services and related costs and security services. The increase in cost of revenues was due to additional leases and increased expenses related to our opening of additional IBX hubs. During the quarter ended September 30, 2001, we revised our European services strategy that included exiting our European leases and various U.S. leaseholds. These actions reduced the cost of revenues commencing in fourth quarter 2001; however, these savings have been offset in part by increased cost of revenues associated with the opening of the New York metropolitan IBX hub during the first quarter of 2002, including related depreciation and amortization expense, and additional cost of revenues related to our existing IBX hubs as our installed base of customers grows.

*Sales and Marketing.* Sales and marketing expenses decreased from \$20.1 million for the year ended December 31, 2000 to \$16.9 million for the year ended December 31, 2001; however, these amounts include stock-based compensation expense of \$6.3 million and \$2.8 million, respectively, resulting in a 2% increase in period over period cash spending. Sales and marketing expenses consist primarily of compensation and related costs for the sales and marketing personnel, sales commissions, marketing programs, public relations, promotional materials and travel. The increase in sales and marketing expense resulted from the addition of personnel in our sales and marketing organizations during the first half of 2001, reflecting our increased selling effort and our initiatives to develop market awareness. During the quarter ended September 30, 2001, we incurred a \$1.3 million restructuring charge related to a reduction in workforce that included some sales and marketing staff. In addition, we are closely monitoring our discretionary marketing costs as the result of current market conditions. As a result, we do not expect our sales and marketing costs to increase significantly in the foreseeable future, until such time as we reach pre-determined levels of profitability.

*General and Administrative.* General and administrative expenses increased from \$56.6 million for the year ended December 31, 2000 to \$58.3 million for the year ended December 31, 2001. These amounts include stock-based compensation expense of \$22.8 million and \$15.8 million, respectively, and depreciation and amortization expense of \$3.3 million and \$9.6 million, respectively, resulting in an 8% increase in period over period cash spending. General and administrative expenses consist primarily of salaries and related expenses,



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accounting, legal and administrative expenses, professional service fees and other general corporate expenses. The increase in general and administrative expenses was primarily the result of increased expenses associated with additional hiring of personnel in management, finance and administration, as well as other related costs associated with supporting our expansion, particularly during the first quarter of 2001. During the second and third quarters of 2001, we implemented several cost-savings initiatives, including some staff reductions and an overall decrease in discretionary spending. As a result of these cost saving measures, we do not expect our general and administrative costs to increase significantly in the foreseeable future.

*Restructuring Charge.* During the quarter ended September 30, 2001, we took a restructuring charge of \$48.6 million consisting of \$45.3 million related to its revised European services strategy, \$2.0 million for certain anticipated excess U.S. leasehold exit costs and \$1.3 million related to a reduction in workforce, primarily in selling, general and administrative functions at our corporate headquarters. During third quarter 2001, we decided to partner with other Internet exchange companies in Europe rather than build and operate our own centers outside of the U.S. As a result, we (a) recorded a write-down of our European construction in progress assets to their net realizable value and recorded a charge totaling \$29.3 million, (b) accrued certain leasehold exit costs for our European leasehold interests in the amount of \$6.4 million, (c) wrote-off our European letters of credit that secured the European leasehold interests in the amount of \$8.6 million and (d) accrued various legal, storage and other costs totaling \$1.0 million to facilitate this change in strategy. We experienced some cost savings benefits from this restructuring charge during the fourth quarter of 2001, particularly in cost of revenues; however, these cost-savings were partially offset by the increased operating costs of the New York metropolitan area IBX hub beginning in the first quarter of 2002. In addition, we incurred a \$2.0 million restructuring charge for leasehold exit costs associated with certain excess U.S. leases and a \$1.3 million restructuring charge related to an approximate 15% reduction in workforce in an effort to reduce the cost structure of our corporate headquarter functions. We began to realize the cost savings benefits of the \$2.0 million U.S. lease restructuring charge and \$1.3 million workforce reduction restructuring charge commencing in the fourth quarter of 2001.

*Interest Income.* Interest income decreased from \$16.4 million for the year ended December 31, 2000 to \$10.7 million for the year ended December 31, 2001 as a result of a decline in short-term interest rates and reduced cash, cash equivalent and short-term investments.

*Interest Expense.* Interest expense increased from \$29.1 million for the year ended December 31, 2000 to \$43.8 million for the year ended December 31, 2001. The increase in interest expense was attributed to interest on the senior notes, interest related to an increase in our debt facilities and capital lease obligations, including the credit facility, and amortization of the senior notes, credit facility, other debt facilities and capital lease obligations discount.

*Years ended December 31, 2000 and December 31, 1999*

*Revenues.* Revenues increased from \$37,000 for the year ended December 31, 1999 to \$13.0 million for the year ended December 31, 2000. Revenues consisted of recurring revenues of \$11.6 million, primarily from the licensing of cabinet space and power, and non-recurring revenues of \$1.4 million related to the recognized portion of deferred installation revenue and custom installation revenues.

*Cost of Revenues.* Cost of revenues increased from \$3.3 million for the year ended December 31, 1999 to \$43.4 million for the year ended December 31, 2000. Cost of revenues consisted primarily of rental payments for our leased IBX hubs, site employees' salaries and benefits, utility costs, power and redundancy system engineering support services and related costs, security services and related costs and depreciation and amortization of our IBX hub build-out and other equipment costs. The increase in cost of revenues was due to the expansion and deployment of our IBX hubs throughout the U.S. In addition, cost of revenues included certain costs related to real estate obtained for future IBX hubs in the U.S. and Europe. Furthermore, these amounts include \$177,000 and \$766,000, for the years ended December 31, 1999 and 2000, respectively, of stock-based compensation expense.

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*Sales and Marketing.* Sales and marketing expenses increased from \$3.9 million for the year ended December 31, 1999 to \$20.1 million for the year ended December 31, 2000. Sales and marketing expenses consisted primarily of compensation and related costs for the sales and marketing personnel, sales commissions, marketing programs, public relations, promotional materials and travel. The increase in sales and marketing expense resulted from the addition of personnel in our sales and marketing organizations, reflecting our increased selling effort to support our IBX hub deployment plan and our efforts to develop market awareness. These amounts include \$1.6 million and \$6.3 million, for the years ended December 31, 1999 and 2000, respectively, of stock-based compensation expense.

*General and Administrative.* General and administrative expenses increased from \$12.6 million for the year ended December 31, 1999 to \$56.6 million for the year ended December 31, 2000. General and administrative expenses consisted primarily of salaries and related expenses, accounting, legal and administrative expenses, professional service fees and other general corporate expenses. The increase in general and administrative expenses was primarily the result of increased expenses associated with additional hiring of personnel in management, finance and administration, as well as other related costs associated with supporting our expansion. These amounts include \$4.8 million and \$22.8 million, for the years ended December 31, 1999 and 2000, respectively, of stock-based compensation expense.

*Interest Income.* Interest income increased from \$2.1 million for the year ended December 31, 1999 to \$16.4 million for the year ended December 31, 2000. Interest income increased substantially due to higher cash, cash equivalent and short-term investment balances held in interest bearing accounts, resulting from the proceeds of the initial public offering and preferred stock financing activities.

*Interest Expense.* Interest expense increased from \$3.1 million for the year ended December 31, 1999 to \$29.1 million for the year ended December 31, 2000. The increase in interest expense was attributed to interest on the senior notes, interest related to our debt facilities and capital lease obligations and amortization of the senior notes, debt facilities and capital lease obligations discount.

### **Liquidity and Capital Resources**

Since inception, we have financed our operations and capital requirements primarily through the issuance of senior notes, the private sale of preferred stock, our initial public offering, our credit facility, which was later amended, and various types of debt facilities and capital lease obligations, for aggregate gross proceeds of approximately \$844.2 million. As of June 30, 2001, our total indebtedness from senior notes, credit facility and other debt facilities and capital lease obligations was \$352.5 million. As of September 30, 2002, this amount was reduced to \$256.2 million.

As of September 30, 2002, our principal source of liquidity was approximately \$11.6 million in cash, cash equivalents and short-term investments. In addition, as of September 30, 2002, we had \$1.6 million of restricted cash and short-term investments.

### **Uses of Cash**

Net cash used in our operating activities was \$29.7 million and \$52.1 million for the nine months ended September 30, 2002 and 2001, respectively. Net cash used in our operating activities was \$68.9 million, \$68.1 million and \$9.9 million for the years ended December 31, 2001, 2000 and 1999, respectively. We used cash primarily to fund our net loss, including cash interest payments on senior notes and our credit facility.

Net cash used in investing activities was \$6.5 million and \$191.8 million for the nine months ended September 30, 2002 and 2001, respectively. Net cash used in investing activities was \$153.0 million, \$302.2 million and \$86.3 million for the years ended December 31, 2001, 2000 and 1999, respectively. Net cash used in investing activities was primarily attributable to the construction of our IBX hubs and the purchase of restricted cash and short-term investments. The amount of cash used in investing activities has decreased substantially as we have now completed our IBX hub rollout plan.

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Net cash used in financing activities was \$13.7 million for the nine months ended September 30, 2002. Net cash generated by financing activities was \$155.1 million for the nine months ended September 30, 2001. Net cash used in financing activities during the nine months ended September 30, 2002 was primarily attributable to the scheduled monthly payments of our debt facilities and capital lease obligations, the principal repayment of \$2.5 million of our senior notes and the costs associated with the exchange of the senior notes. Net cash generated by financing activities during the six months ended September 30, 2001 was primarily attributable to the \$150.0 million draw down under the original credit facility. On an annual basis, net cash generated by financing activities was \$107.8 million, \$339.8 million and \$295.2 million for the years ended December 31, 2001, 2000 and 1999, respectively. Net cash generated by financing activities during the year ended December 31, 2001 was primarily attributable to the net \$105.0 million draw down under our credit facility. Net cash generated by financing activities during the year ended December 31, 2000 was primarily attributable to the proceeds from the initial public offering of our common stock and the issuance of Series C redeemable convertible preferred stock. Net cash generated by financing activities during the year ended December 31, 1999 was primarily attributable to the proceeds from the issuance of Series B redeemable convertible preferred stock and the proceeds from the issuance of the senior notes and the draw down of funds related to our debt and capital lease facilities.

**Debt Obligations**

As of September 30, 2002, our total indebtedness from our senior notes, credit facility and debt facilities and capital lease obligations was \$256.2 million, as follows:

*Senior Notes.* In December 1999, we issued \$200.0 million aggregate principal amount of senior notes. Our aggregate net proceeds of this offering were \$193.4 million, net of offering expenses. During the first half of 2002, we retired \$52.8 million of the senior notes in exchange for approximately 16.0 million shares of common stock and approximately \$2.5 million of cash. As of September 30, 2002, a total of \$147.2 million of senior note principal remains outstanding.

We expect to retire a substantial portion of our outstanding senior notes as part of the senior note exchange. This will result in us recognizing a substantial gain in the period the outstanding debt is extinguished. In addition to reducing the amount of principal that would need to be repaid in conjunction with the senior note exchange, plus the \$52.8 million of senior notes already exchanged, we anticipate a savings of approximately \$23.1 million in annual interest payments payable semi-annually each year on December 1 and June 1.

*Credit Facility.* In December 2000, we entered into the credit facility with a syndicate of lenders under which, subject to our compliance with a number of financial ratios and covenants, we were permitted to borrow up to \$150.0 million. As of September 30, 2001, we had borrowed the entire \$150.0 million under this facility. In October 2001, in conjunction with the repayment of \$50.0 million, we amended the credit facility to decrease total borrowing allowed to \$125.0 million and to reset certain financial covenants to more accurately reflect market conditions. As of September 30, 2002, a total of \$100.0 million was outstanding under the credit facility. The credit facility requires us to maintain specific financial ratios and comply with quarterly, and in some circumstances, monthly covenants requiring us to, among other things, achieve specific revenue targets at levels significantly above historical revenues, maintain certain minimum cash balances and limit our EBITDA losses. As of September 30, 2002, we were not in compliance with several of these provisions, including the revenue covenant. In August 2002, the senior lenders provided us with a waiver and further amended the credit facility. Under this amendment we agreed to prepay \$5.0 million and agreed to a reduction in the total borrowing allowed under the credit facility to \$100.0 million (permanently eliminating the \$20.0 million which was previously available for borrowing). In connection with the proposed combination and financing, we have entered into further discussions with our senior lenders on the principal terms for a further amendment to the credit facility and such lenders have agreed to recommend the terms of this amendment to their committees. The most significant terms and conditions of the proposed amendment are:

we will be granted a full waiver of previous covenant breaches and will be granted consent to use a minimum of \$15.0 million of cash to retire our senior notes;

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future revenue and EBITDA covenants will be eliminated and the remaining covenants and ratios will be reset consistent with future performance of the combined company for the remaining term of the loan;

we will permanently repay \$7.5 million of the currently outstanding \$100.0 million balance; and

the amortization schedule for the credit facility will be amended such that the minimum amortization due in 2002-2004 will be significantly reduced and some amortization will be extended to 2006.

In November 2002, the lenders agreed to further amend the credit facility as follows:

We were granted a waiver of the covenant requiring us to convert \$100.0 million of senior notes by November 8, 2002.

We were granted a waiver to reset the minimum revenue and maximum EBITDA loss covenants through December 31, 2002 and the minimum cash balance covenant through March 31, 2003.

We were granted a waiver, subject to certain conditions, of an event of default created by a minimum cash covenant default and a payment default, if any, in existence pursuant to the Wells Fargo loan (see *Other Debt Facilities and Capital Lease Obligations* below).

We were granted a waiver, subject to certain conditions, of a default or an event of default created by our failure to make the interest payment due on the senior notes in December 2002.

We currently anticipate that a final amendment will be put in place prior to the closing of the proposed transaction. This amendment will be subject to the closing of the combination, the financing and the senior note exchange.

We do not currently have sufficient cash reserves or alternate financing available to repay the amount outstanding under the credit facility. If we are unable to complete the combination, the financing and the senior note exchange, we will again be in breach of the covenants contained in the credit facility.

Because we cannot be certain that we will complete the combination, the financing and the senior note exchange or that we will be able to obtain a final amendment from our senior lenders, we have classified the full amount outstanding under the credit facility of \$100.0 million as a current debt obligation on the accompanying balance sheet as of September 30, 2002.

*Other Debt Facilities and Capital Lease Obligations.* In May 1999, we entered into a master lease agreement in the amount of \$1.0 million. This master lease agreement was increased by addendum in August 1999 by \$5.0 million. This agreement bears interest at either 7.5% or 8.5% and is repayable over 42 months in equal monthly payments with a final interest payment equal to 15% of the advance amounts due on maturity. As of September 30, 2002, these capital lease financings were fully drawn and \$2.3 million remained outstanding.

In August 1999, we entered into a loan agreement in the amount of \$10.0 million. This loan agreement bears interest at 8.5% and is repayable over 42 months in equal monthly payments with a final interest payment equal to 15% of the advance amounts due on maturity. As of September 30, 2002, this loan agreement was fully drawn and \$1.8 million remained outstanding. In October 2002, we amended the loan agreement to secure certain short-term cash deferment benefits. Under the terms of the VLL Loan Amendment, we extended the maturity of the loan by 24 months and in exchange, the Company issued a warrant to purchase 1,030,000 shares at \$0.01 per share and re-priced their existing and outstanding warrants to \$0.01 per share. If the combination closes before March 31, 2003, commencing January 1, 2003, we will re-amortize the remaining principal balance and related balloon interest payment over the amended 27 month period ending March 1, 2005.

In March 2001, we entered into a loan agreement with Wells Fargo in the amount of \$3.0 million and fully drew down on this amount. This loan agreement bears interest at 13.15% and is repayable over 36 months. As of June 30, 2002, we were not in compliance with one of the requirements of this loan. We have not obtained a

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waiver for this requirement and the bank has rejected a discounted settlement offer. Wells Fargo has filed a lawsuit against the company seeking to force us to obtain a letter of credit in the full amount of the outstanding balance of the Wells Fargo loan. As a result, we have reflected the full amount outstanding under this facility totaling \$1.6 million as a current obligation on the accompanying balance sheet as of September 30, 2002. In September 2002, Wells Fargo obtained a writ of attachment to secure payment of the full amount due under its facility, in the event it prevails on its claim against us. Wells Fargo has not yet filed a motion for summary judgment, however, it has requested, and the court has granted, a hearing date for the lender's motion on this matter of December 19, 2002. We intend to file a reply to the motion for summary judgment and to defend against Wells Fargo's lawsuit.

In June 2001, we entered into a loan agreement in the amount of \$5.0 million. This loan agreement bears interest at 13.0% and is repayable over 36 months. As of September 30, 2002, this loan agreement was fully drawn and \$3.3 million remained outstanding. In August 2002, we amended this loan to secure certain short-term cash deferment. Under the amended terms of this loan agreement, we extended the maturity of the loan by nine months. Commencing September 2002, we will benefit from the reduction in monthly payments over the following 14 months thereby deferring approximately \$1,200,000 of principal payments. Commencing November 2003, the deferred principal payments will be repaid over the remaining 17 months of the loan ending March 2005.

**Debt Maturities and Operating Lease Commitments**

We lease our IBX hubs and certain equipment under non-cancelable operating lease agreements expiring through 2025. The following represents the minimum future operating lease payments for these commitments, as well as the combined aggregate maturities for all of our debt as of September 30, 2002 (in thousands):

	<b>Debt Facilities and Capital Lease Obligations</b>	<b>Senior Secured Credit Facility</b>	<b>Senior Notes</b>	<b>Operating Leases</b>	<b>Total</b>
2002	\$ 2,886	\$ 100,000		\$ 4,063	\$ 106,949
2003	3,483			16,195	19,678
2004	2,077			21,225	23,302
2005	537			21,640	22,177
2006				22,344	22,344
2007 and thereafter			147,249	189,922	337,171
	<u>\$ 8,983</u>	<u>\$ 100,000</u>	<u>\$ 147,249</u>	<u>\$ 275,389</u>	<u>\$ 531,621</u>

As a result of our exercising the San Jose ground lease option in September 2002, the gross future minimum operating lease payments have been reduced by \$85.2 million.

Assuming we are able to complete the combination, the financing and the senior note exchange and comply with future covenants in our credit facility, we anticipate that our existing cash, and cash flow generated from our IBX hubs will be sufficient to meet the working capital, debt service and corporate overhead requirements associated with its operations for the next 12 months. However, there can be no assurances that we will be able to complete the combination, the financing and the senior note exchange and comply with future covenants in our credit facility. In addition, in the event we are unable to complete the combination, the financing and the senior note exchange, we will most likely seek bankruptcy protection. The potential for a future covenant breach and the resultant acceleration of the outstanding borrowings in the current financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might arise should we be unable to continue as a going concern.

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**Recent Accounting Pronouncements**

In October 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 supercedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. SFAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30. SFAS 144 develops one accounting model for long-lived assets that are to be disposed of by sale. SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, SFAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (a) can be distinguished from the rest of the entity and (b) will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS 144 is effective for us for all financial statements issued in fiscal 2002. The adoption of SFAS 144 has not had a material impact on us.

In November 2001, the FASB Emerging Issues Task Force ( EITF ) reached a consensus on EITF Issue 01-09, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products, which is a codification of EITF 00-14, 00-22 and 00-25. This issue presumes that consideration from a vendor to a customer or reseller of the vendor's products to be a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement and could lead to negative revenue under certain circumstances. Revenue reduction is required unless consideration relates to a separate identifiable benefit and the benefit's fair value can be established. This issue should be applied no later than in annual or interim financial statements for periods beginning after December 15, 2001, which is our first quarter ended March 31, 2002. Upon adoption, we are required to reclassify all prior period amounts to conform to the current period presentation. The adoption of EITF Issue 01-09 has not had a material impact on us.

In May 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS 145 rescinds the automatic treatment of gains or losses from extinguishment of debt as extraordinary unless they meet the criteria for extraordinary items as outlined in APB Opinion No. 30, Reporting the Results of Operations, Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. In addition, SFAS 145 also requires sale-leaseback accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions and makes various technical corrections to existing pronouncements. SFAS 145 is effective for us for all financial statements issued in fiscal 2003; however, as allowed under the provisions of SFAS 145, we decided to early adopt SFAS 145 in relation to extinguishments of debt for the nine months ended September 30, 2002.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS No. 146 eliminates the definition and requirement for recognition of exit costs in Emerging Issues Task Force Issue No. 94-3 where a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. This statement is effective for exit or disposal activities initiated after December 31, 2002. We do not believe that the adoption of this statement will have a material impact on our results of operations, financial position or cash flows.

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**QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market Risk**

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

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

**Interest Rate Risk**

Our exposure to market risk resulting from changes in interest rates relates primarily to our investment portfolio. Our interest income is impacted by changes in the general level of U.S. interest rates, particularly since the majority of our investments are in short-term instruments. Due to the short-term nature of our investments, we do not believe that we are subject to any material market risk exposure. An immediate 10% increase or decrease in current interest rates would not have a material effect on the fair market value of our investment portfolio. We would not expect our operating results or cash flows to be significantly affected by a sudden change in market interest rates in our investment portfolio.

An immediate 10% increase or decrease in current interest rates would furthermore not have a material impact to our debt obligations due to the fixed nature of our long-term debt obligations, except for the interest expense associated with our credit facility, which bears interest at floating rates, plus applicable margins, based on either the prime rate or LIBOR. As of September 30, 2002, the credit facility had an effective interest rate of 6.72%. The fair market value of our long-term fixed interest rate debt is subject to interest rate risk. Generally, the fair market value of fixed interest rate debt will increase as interest rates fall and decrease as interest rates rise. These interest rate changes may affect the fair market value of the fixed interest rate debt but does not impact our earnings or cash flows.

The fair market value of our senior notes is based on quoted market prices. The estimated fair value of our senior notes as of September 30, 2002 was approximately \$23.6 million.

**Foreign Currency Risk**

To date, all of our recognized revenue has been denominated in U.S. dollars, generated mostly from customers in the U.S., and our exposure to foreign currency exchange rate fluctuations has been minimal. We expect that future revenues may be derived from customers outside of the U.S. and may be denominated in foreign currency. As a result, our operating results or cash flows may be impacted due to currency fluctuations relative to the U.S. dollar.

Furthermore, to the extent we engage in international sales that are denominated in U.S. dollars, an increase in the value of the U.S. dollar relative to foreign currencies could make our services less competitive in the international markets. Although we will continue to monitor our exposure to currency fluctuations, and when appropriate, may use financial hedging techniques in the future to minimize the effect of these fluctuations, we cannot assure you that exchange rate fluctuations will not adversely affect our financial results in the future.

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**Commodity Price Risk**

Certain operating costs incurred by us are subject to price fluctuations caused by the volatility of underlying commodity prices. The commodities most likely to have an impact on our results of operations in the event of significant price changes are electricity and supplies and equipment used in our IBX hubs. We are closely monitoring the cost of electricity, particularly in California. To the extent that electricity costs continue to rise, we are investigating opportunities to pass these additional power costs onto our customers that utilize this power. We do not employ forward contracts or other financial instruments to hedge commodity price risk.

**CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

On March 7, 2000, KPMG LLP resigned as our independent accountants upon determining that they may no longer be independent of our company as a result of Cisco Systems, Inc.'s investment in both KPMG Consulting, Inc., a subsidiary of KPMG LLP and our company. We subsequently appointed PricewaterhouseCoopers LLP as our principal accountants on March 21, 2000. There were no disagreements with the former accountants during the fiscal years ended December 31, 1998 and 1999 or during any subsequent interim period preceding their replacement on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the former accountants' satisfaction, would have caused them to make reference to the subject matter of the disagreement in connection with their reports. The former independent accountants issued an unqualified report on the financial statements as of December 31, 1999 and 1998 and for the year ended December 31, 1999 and the period from June 22, 1998 (inception) to December 31, 1998. For purposes of this filing, the financial statements for the year ended December 31, 1999 have been audited by PricewaterhouseCoopers LLP. Prior to March 21, 2000, we did not consult with PricewaterhouseCoopers LLP on items that involved our accounting principles or the form of audit opinion to be issued on our financial statements. The change in accountants was approved by our board of directors.



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**DESCRIPTION OF i-STT BUSINESS**

i-STT is a provider of managed IT infrastructure services that help businesses effectively manage their IT investments for optimal performance, continuous availability and immediate scalability. i-STT's core operations are conducted under three general business divisions: (a) its

WEBCentre data center facilities and services which consist of carrier neutral data center facilities located in Singapore and Bangkok, (b) its enterprise messaging services business in which i-STT provides outsourcing of enterprise e-mail applications to enterprises in Singapore and (c) its connectivity services (primarily bandwidth resale and Internet connectivity) to customers who require bandwidth originating or terminating at their hosted systems located in i-STT's WEBCentre facilities. WEBCentre facilities & services, enterprise messaging services, and connectivity services accounted for approximately 62%, 14% and 24% of the revenue of i-STT, respectively.

i-STT's WEBCentre facilities offer customers a managed infrastructure outsourcing solution for their critical servers, Internet hosting and data service needs. i-STT's data centers combine the essentials of reliable power and environmental systems, fire fighting and physical security management with a host of IT related services. These IT related services include monitoring, operation support and managed data security services.

i-STT's enterprise messaging service is a complete outsourced solution, based mainly on the Lotus Notes and Microsoft Exchange platform, by which enterprises entrust the operation and support of their messaging application to i-STT.

i-STT's connectivity services are a set of telecommunications, Internet connectivity and network access solutions which are offered through the telecommunication community hubbing at its WEBCentre. Connectivity services includes bandwidth capacity services such as public switched telephone network, or PSTN, integrated services digital network, or ISDN, asymmetric digital subscriber line, or ADSL and leased circuits which i-STT resells to its WEBCentre customers, often as part of a larger managed hosting package. These telecommunications services give i-STT customers the necessary bandwidth to access and support their hosted systems located at the WEBCentre locations.

i-STT was founded in January 2000 and operated its first WEBCentre facility in Singapore. Since inception, i-STT has expanded its core business, and currently markets and sells its services to customers primarily located in Asia, with WEBCentre sites and supporting sales and operations infrastructure in Singapore and Bangkok, Thailand. i-STT is incorporated in Singapore, and its principal executive offices are located in Singapore.

Prior to September 2001, i-STT also offered voice-over-internet services in Hong Kong, an operation unrelated to its core WEBCentre, messaging and connectivity services businesses. i-STT placed its Hong Kong operations into voluntary liquidation in September 2001 in order to more fully focus its resources on its core business divisions.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF i-STT**

**Introduction**

The following discussion should be read in conjunction with the consolidated historical financial statements of i-STT and related notes thereto for the year ended December 31, 2001 and the period from the inception date of January 3, 2000 to December 31, 2000 (audited) and the nine months ended September 30, 2002 and 2001 (unaudited) included in this proxy statement which have been prepared in accordance with Singapore Statements of Accounting Standard ( SAS or Singapore GAAP ). Singapore GAAP differs in certain significant respects from generally accepted accounting principles in the United States of America ( US GAAP ). For a discussion of differences as applied to i-STT's financial statements, see Note 27 to i-STT's consolidated financial statements. All dollar amounts presented herein are in U.S. dollars. The following discussion was prepared for i-STT as a stand-alone enterprise and does not give effect to the transactions contemplated by the combination agreement. Under the combination agreement i-STT and its Bangkok and Shanghai subsidiary companies will be transferred to Equinix.

i-STT has previously operated as a wholly owned subsidiary of STT Communications ( STTC ). It has not been the practice of STTC to charge i-STT for corporate expenses incurred by STTC in relation to the management of and services rendered to i-STT. Following the completion of the acquisition of i-STT by Equinix, Inc. as described in note 26 of the financial statements, i-STT will cease to be controlled by STTC. i-STT will be required to manage all functions as a subsidiary of Equinix, Inc. Any expenses incurred by STTC in relation to i-STT's business will thereafter be charged to i-STT.

The results and balances included in the historical consolidated financial statements of i-STT have been prepared on a carve-out basis to represent the operating net assets and related historical results of the i-STT businesses, previously included within STTC until 2001. For the period from the inception date of January 3, 2000 to December 31, 2000 and the year ended December 31, 2001 and the nine months ended September 30, 2002 and 2001, these operations have been included in the historical consolidated financial statements as if they had been part of i-STT through each of the periods presented.

For the purpose of preparing financial statements on a carve-out basis, the Company has made certain allocations and estimates of STTC's corporate expenses in the preparation of the financial statements. As a result of these allocations and estimates, the US GAAP net loss and US GAAP shareholders' equity do not reflect the financial position and results of operations of the Company in the future or what the financial position, results of operations or cash flows would have been if the Company had operated as a stand-alone entity during the periods presented.

**Overview**

i-STT is a provider of managed IT infrastructure services that help businesses effectively manage their IT investments for optimal performance, continuous availability and immediate scalability.

i-STT offers the following services, which are organized under three general business divisions, to its customers:

*WEBCentre.* i-STT's WEBCentre division maintains carrier neutral data center facilities in Singapore and Bangkok which house customers' critical computer systems, networks and telecommunications equipment. This division also provides system and network management services to ensure the optimal performance and continuous availability of customers' computer systems. These services are very similar to those offered by Equinix and Pihana in their facilities.

*Connectivity Services.* i-STT's connectivity services division provides connectivity services that enable multiple telecommunications carriers and Internet service providers to interconnect with each

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other at a single location and provide direct Internet connectivity to enterprise customers within the data center.

*Enterprise Messaging.* i-STT's enterprise messaging division enables enterprises to outsource the operations and management of their email systems to i-STT. These email systems are based on the Lotus Notes and Microsoft Exchange platforms.

Prior to September 2001, i-STT also offered voice-over-internet services in Hong Kong, an operation generally unrelated to its core WEBCentre, messaging and connectivity services businesses. i-STT placed its Hong Kong operations into voluntary liquidation in September 2001 in order to more fully focus its resources on its core business divisions.

i-STT has recorded net operating losses from operations and negative cash flow since its inception. Given i-STT's limited operating history and the general trend of decline in the average sales price of i-STT's core products (leased WEBCentre space and resold bandwidth) from 2000 to the present, i-STT may not achieve desired profitability. i-STT therefore believes that it may continue to experience operating losses in future quarters.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with Singapore GAAP, which requires us to make certain estimates and assumptions. We believe that of our significant accounting policies, the following may involve a higher degree of judgment and complexity.

#### *Revenue Recognition*

*Data Center Services.* The customer's fee is either fixed or determinable under the terms of the written contract prior to recognizing the revenue. For most of the monthly services, the fees are fixed under the terms of the written contract. Revenue from fixed monthly services is recognized ratably over the contract term, generally ranging between one to three years for the majority of contracts. Fees for certain monthly services are variable based on an objectively determinable factor such as usage, area, range of services, and number of users. Such factors are included in the written contract to determine the customer's fee payable. The customer's fee is negotiated at the outset of the arrangement. Any request for refund or adjustment to the arrangement requires consent from both parties. Revenue from variable monthly services is recognized upon the delivery of the services.

*Fees from Sale of Equipment and Related Installation Services.* Revenue from the sale of equipment is based on negotiated selling prices. Installation services relating to any equipment sale are performed in conjunction with the delivery of the equipment. As the installation service is essential to the functionality of the delivered equipment, the revenue from the sale of the equipment and installation service is recognized upon performance of the installation service and confirmation of acceptance from the customer.

*Bandwidth Resale.* i-STT commenced its bandwidth resale operations in 2001 in an effort to provide its customers with a more fully integrated services solution. i-STT first contracts with the bandwidth suppliers or vendors to provide it with the necessary bandwidth for resale. Then, i-STT sells the bandwidth services to its customers under reseller agreements. Under these arrangements, i-STT also provides connectivity services to connect the customer to the acquired bandwidth. i-STT recognizes revenue from such arrangements on a gross basis as a principal versus on a net basis as an agent. i-STT's customer services agreement identifies i-STT as the party responsible for the delivery of the bandwidth services to its customers and i-STT has full pricing discretion. i-STT assumes credit risk associated with its bandwidth resale transactions, is responsible for collecting the sales price from its customers and must pay any amounts owed to its bandwidth suppliers regardless of whether the sales price is fully collected.

*Allowance for Doubtful Accounts.* i-STT maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make required and expected payments. If the financial

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condition of i-STT's customers were to deteriorate or if they were to become insolvent, resulting in an impairment of their ability to make payments, an increase in allowances for doubtful accounts may be required. Management specifically analyzes accounts receivable and analyzes current economic news and trends, historical bad debts, customer concentrations, customer credit-worthiness and changes in customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. To date, i-STT has not had significant bad debt experience with its customers.

### *Property, Plant and Equipment*

**Owned Assets.** Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. The carrying amounts of property, plant and equipment are reviewed annually to determine whether they are in excess of their recoverable amounts at the given balance sheet date. If the carrying value exceeds the recoverable amount, the asset is written down to the lower recoverable amount. No depreciation is provided in respect of property, plant and equipment which is under construction or installation, nor in respect of an asset which has not been put into use or operation. Property, plant and equipment is depreciated on a straight-line basis over their estimated useful lives as follows:

Leasehold improvements	shorter of lease term and 5 years
Plant and machinery	2-10 years
Office equipment, furniture, fittings and fixtures	3-5 years

**Leased Assets.** Assets acquired on leased purchase arrangements are capitalized and the corresponding obligation treated as a liability of i-STT. The total interest, being the difference between the total installments payable and the capitalized amount, is charged to the profit and loss account over the period of such lease purchase arrangements in equal monthly installments to produce a constant rate of charge on the balance of capital repayments outstanding.

**Intangible Assets.** Intangible assets represent computer software which is stated at cost less accumulated amortization and impairment losses. Amortization is charged over its estimated useful life of 2 to 3 years on a straight line basis commencing from the effective date of the license or the date when the intangible asset is available for use.

### *Impairment*

The carrying amounts of i-STT's assets, other than inventories, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date. The recoverable amount is the greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The business nature of i-STT requires substantial investment upfront with expected future cash inflows generally over a period that is more than a year. i-STT is planning significant business and the estimation of future cash flows involves significant subjectivity.

### *Income Tax*

Income tax on the results for the year comprises current and deferred tax. Income tax is recognized in the statement of operations except to the extent that it relates to items recognized directly to equity, in which case it is recognized in equity.

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Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

**Results of Operations**

*Nine Months Ended September 30, 2002 and 2001*

**Revenues.** i-STT recognized revenues of \$8.1 million for the nine months ended September 30, 2002 as compared to revenues of \$9.8 million for the nine months ended September 30, 2001.

Revenues consisted of recurring revenues of \$7.5 million and \$4.4 million, respectively for the nine months ended September 30, 2002 and 2001. i-STT's number of customers remained constant at approximately 132 as of September 30, 2002 and 2001. The increase in recurring revenues primarily resulted from the corresponding increase in the sales of i-STT's WEBCentre services. In addition, the increase in recurring revenues was partially attributable to bandwidth resale of \$1.4 million in the nine months ended September 30, 2002. i-STT recorded no revenue attributable to bandwidth resale in the nine months ended September 30, 2001. i-STT recognizes its recurring revenues generated from the sale of its WEBCentre and connectivity services ratably over the term of each customer's contract.

Non-recurring revenues were \$0.6 million and \$2.3 million, respectively, for the nine months ended September 30, 2002 and 2001, primarily resulting from a decline in equipment sales from \$1.7 million in the nine months ended September 30, 2001 to \$0.2 million in the nine months ended September 30, 2002. The decline in non-recurring revenues also was partly attributable to a slight decrease in the recognized portion of deferred revenue and revenues generated from custom services. These non-recurring revenues are recognized upon completion of each equipment sale or individual service project.

In September 2001, i-STT closed its Hong Kong operations, which consisted of voice-over-internet services, an operation generally unrelated to i-STT's core WEBCentre, messaging and connectivity services businesses. These closed Hong Kong operations therefore generated no revenue for the nine months ended September 30, 2002, as compared to \$3.1 million in revenue for the corresponding nine months ended September 30, 2001. These closed operations were the primary cause of i-STT's 17% reduction in total revenue for the nine months ended September 30, 2002 from the corresponding nine months in 2001.

**Cost of Revenues.** i-STT's cost of revenues declined to \$9.4 million for the nine months ended September 30, 2002 from \$17.7 million for the nine months ended September 30, 2001.

Cost of revenues consists primarily of rent expense for i-STT's WEBCentre space, operations employees' salaries and benefits, power and other utility costs, redundancy support services and related costs and security

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services. Of the \$7.2 million decrease in cost of revenues (excluding depreciation and amortization expense) during the nine months ended September 30, 2002 from the nine months ended September 30, 2001, \$4.8 million of the decrease resulted from the September 2001 closure of i-STT's Hong Kong operations. The remaining reduction in cost of revenues resulted partly from the lower cost of equipment sold during the nine months ended September 30, 2002 and partly due to several cost-saving initiatives that were implemented beginning in the second half of 2001. Cost of equipment sold was reduced to \$114,000 for the nine months ended September 30, 2002 from \$1.6 million for the nine months ended September 30, 2001. The cost-saving initiatives totaling \$2.2 million were realized during the nine months ended September 30, 2002 as compared to the corresponding period in 2001 due to an improved understanding of i-STT's bandwidth requirements and i-STT's ability to better negotiate more favorable prices from its telecommunications providers, and a reduction in operations employees' salary and bonus allocation. The various reduction in costs were partially affected by the increased cost of bandwidth resale of \$0.9 million for the nine months ended September 30, 2002.

Depreciation and amortization expense decreased to \$3.7 million for the nine months ended September 30, 2002 from \$4.8 million for the corresponding period on 2001. The reduction was the result of the closure of the Hong Kong Operations and the write-off of certain assets for value impairment in 2001 which saved \$0.6 million and \$0.5 million of depreciation expense, respectively.

*Sales and Marketing.* i-STT's sales and marketing expenses decreased to \$1.2 million for the nine months ended September 30, 2002 from \$3.8 million for the nine months ended September 30, 2001. Sales and marketing expenses consist primarily of compensation and related costs for the sales and marketing personnel, sales commissions, marketing programs, public relations, promotional materials and travel. The decrease in sales and marketing expenses primarily resulted from a reduction in advertising expense in the nine months ended September 30, 2002 from the corresponding period in 2001 as i-STT engaged in an aggressive advertising campaign in the 2001 period designed to create market awareness of its brands and products. In addition, i-STT undertook several cost-saving initiatives including certain staff reductions and a general decrease in discretionary spending. i-STT continues to closely monitor its spending in all areas of its business as a result of the current market conditions. Accordingly, i-STT does not expect its sales and marketing expenses to increase significantly in the foreseeable future, until such time it reaches certain levels of profitability that are pre-determined by management.

*General and Administrative.* General and administrative expenses decreased to \$3.0 million for the nine months ended September 30, 2002 from \$8.5 million for the nine months ended September 30, 2001. These amounts included \$0.7 million and \$0.9 million of depreciation expense, respectively, for the nine month periods ended September 30, 2002 and 2001, resulting in a 67% decrease in period over period cash spending. General and administrative expenses consist primarily of salaries and related expenses, accounting, legal and administrative expenses, professional service fees and other general corporate expenses. The significant decrease in general and administrative expenses was primarily the result of several cost-saving initiatives, including staff reductions, a general decrease in discretionary spending, the elimination of a corporate bonus program, and the closure of its Hong Kong operations. i-STT continues to closely monitor its spending in all areas as a result of the current market conditions. Accordingly, while i-STT expects to see some fluctuations in its general and administrative costs in future quarters, it does not expect general and administrative costs to increase significantly in the foreseeable future until such time as it reaches certain pre-determined levels of profitability.

*Loss on Deconsolidation of Subsidiary.* On September 13, 2001, i-STT Hong Kong commenced liquidation proceedings in a creditors voluntary liquidation. Under the laws of Hong Kong, the Company does not have any obligations in relation to liabilities of i-STT Hong Kong which cannot be repaid out of liquidation funds. The Company recorded a loss on deconsolidation of \$2 million for the nine months ended September 30, 2001. This represented the excess of i-STT Hong Kong's external liabilities over its assets at the date of abandonment.

*Other Operating Expenses.* i-STT's other operating expenses decreased to \$318,000 for the nine months ended September 30, 2002 from \$2.2 million for the nine months ended September 30, 2001. Other operating

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expenses for the nine months ended September 30, 2001 mainly relate to an impairment in value of computer hardware and software amounting to \$1.8 million. Other operating expenses during both periods also included the corporate management fees charged by Singapore Technologies Pte Ltd. Although these management fees have been accrued as of September 30, 2002, upon completion of the combination, the payment of the management fees will be waived for the year ended December 31, 2002. Also included in the other operating expenses for the nine months ended September 30, 2002 was a one-time payment of \$128,000 for a staff reduction that occurred in May 2002.

*Other Income.* Other income of \$211,000 during the six months ended September 30, 2002 and \$11,000 during the nine months ended September 30, 2001 was attributable in both periods to foreign currency conversion differences. In addition, during the nine months ended September 30, 2002, i-STT received other income from the sub rental of its leased space in Shanghai, China. i-STT has subleased its leased space in Shanghai, until such time as management decides to commence operations at such location.

*Interest Expense.* i-STT's interest expense reduced to \$329,000 for the nine months ended September 30, 2002 from \$778,000 for the nine months ended September 30, 2001. These expenses consisted primarily of interest expense on i-STT's borrowings from its immediate parent holding company and interest expense on its loan from a Thailand bank that was used to finance the expansion of i-STT's Bangkok WEBCentre operations. In addition, the September 2001 capitalization of certain borrowings from i-STT's immediate parent holding company resulted in an approximately \$450,000 reduction in interest expense.

*Minority Interest.* Minority interest represents a share of loss of \$176,000 by i-STT's minority shareholders in its Thailand subsidiary during the nine months ended September 30, 2002. i-STT has a 60% interest in its Thailand operations. The corresponding share of loss by the same minority shareholders was \$348,000 during the nine months ended September 30, 2001.

*Years Ended December 31, 2001 and 2000*

*Revenues* i-STT recognized revenues of \$12.2 million for the year ended December 31, 2001, compared to revenues of \$10.7 million for the year ended December 31, 2000.

Revenues consisted of recurring revenues of \$6.5 million and \$0.5 million, respectively, for the year ended December 31, 2001 and 2000. The increase in recurring revenues primarily resulted from i-STT's increased number of customers from approximately 33 as of December 31, 2000 to approximately 130 as of December 31, 2001 and from the corresponding increase in the sales of i-STT's other WEBCentre data services. Recurring revenues for sales of leased WEBCentre space was \$3.4 million and \$300,000, respectively, for the year ended December 31, 2001 and 2000. In addition, the increase in recurring revenue was also partially attributable to the revenue from the Enterprise Messaging Services (EMS) of \$2.0 million in the year ended December 31, 2001. i-STT recorded no revenue attributable to EMS in the year ended December 31, 2000. Recurring revenues for sales of bandwidth was \$0.6 million for the year ended December 31, 2001. There were no sales of bandwidth in the year ended December 31, 2000. Other increase in the recurring revenues was attributed to an increase in sales of managed services to \$500,000 from \$200,000, respectively, for the year ended December 31, 2001 and 2000.

Non-recurring revenues were \$2.6 million and \$300,000, respectively, for the year ended December 31, 2001 and 2000, primarily resulting from an increase in equipment sales from \$57,000 in the year ended December 31, 2000 to \$1.9 million in the year ended December 31, 2001.

In September 2001, i-STT closed its Hong Kong operations, which consisted of voice-over-internet services, an operation generally unrelated to i-STT's core WEBCentre and connectivity services businesses. These closed Hong Kong operations therefore generated only revenue of \$3.1 million for the period ended September 12, 2001, compared with a contribution of \$9.9 million in revenue for the year ended December 31, 2000. i-STT recorded no revenue from its Hong Kong operations between September 13, 2001 and December 31, 2001. The

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effect of these closed operations were more than offset by the increase in i-STT's WEBCentre and connectivity services businesses.

*Cost of Revenues.* i-STT's cost of revenue increased to \$20.6 million for the year ended December 31, 2001 from \$16.9 million for the year ended December 31, 2000.

Cost of revenues consists primarily of rent expense for i-STT's WEBCentre space, operations employees' salaries and benefits, power and other utility costs, redundancy support services and related costs and security services. Cost of revenues (excluding depreciation and amortization expense) increased by \$0.7 million during the year ended December 31, 2001 from the year ended December 31, 2000. The increase was mainly due to increased cost of equipment sold by \$1.6 million. The closure of i-STT's Hong Kong operations resulted in lower cost of revenues (excluding depreciation and amortization expense) by \$4.8 million. This was, however, offset by the increased cost of \$3.9 million from the full-year operational WEBCentre and connectivity services in Singapore and Bangkok. i-STT's Singapore operations first recognized revenues in May 2000, and its Bangkok operations first recognized revenues in January 2001.

Depreciation and amortization expense increased to \$5.6 million from \$2.7 million, respectively, for the year ended December 31, 2001 and 2000. The increase was mainly due to increase of leased WEBCentre facilities available from approximately 9,000 square feet to approximately 35,000 square feet, respectively, as of December 31, 2000 and 2001.

*Sales and Marketing.* i-STT's sales and marketing expenses increased to \$3.7 million for the year ended December 31, 2001 from \$2.8 million for the year ended December 31, 2000. Sales and marketing expenses consist primarily of compensation and related costs for the sales and marketing personnel, sales commissions, marketing programs, public relations, promotional materials and travel. The sales and marketing expenses increased primarily due to increased selling efforts and development of market awareness for i-STT's Singapore and Bangkok operations of \$1.9 million. The closed Hong Kong operations contributed to reduction in sales and marketing expenses by \$1.0 million.

*General and Administrative.* General and administrative expenses increased to \$10.2 million for the year ended December 31, 2001 from \$5.6 million for the year ended December 31, 2000. These amounts include \$1.5 million and \$0.7 million, respectively, of depreciation and amortization expense, resulting in a 77% increase in period over period cash spending. General and administrative expenses consist primarily of salaries and related expenses, accounting, legal and administrative expenses, professional service fees and other general corporate expenses. The significant increase in general and administrative expenses was primarily the result of an increase in corporate administration staff for purposes of the Pan-Asia WEBCentre expansion plan. The average number of corporate administration staff was 39 and 19, respectively, for the year ended December 31, 2001 and 2000. At the end of 2001, the number of corporate administration staff was reduced to 28 after the discontinuation of Hong Kong and Malaysia operations. It was subsequently reduced to 10 in May 2002 when the management of i-STT decided to re-focus on Singapore and Bangkok operations until such time the market conditions permit a re-examination of the regional expansion plan. Hong Kong operations contributed to \$1.6 million of increase in general and administration expenses for 2001 from 2000, primarily a result of increase in headcount.

i-STT's Shanghai and Malaysia offices incurred general and administrative expenses of \$1.0 million in 2001. Shanghai and Malaysia offices were established in year 2001. i-STT closed its Malaysian operations in December 2001.

*Loss on Deconsolidation of Subsidiary.* On September 13, 2001, i-STT Hong Kong commenced liquidation proceedings in a creditors voluntary liquidation. Under the laws of Hong Kong, the Company does not have any obligations in relation to liabilities of i-STT Hong Kong which cannot be repaid out of liquidation funds. The Company recorded a loss on deconsolidation of \$2.0 million for the year ended December 31, 2001. This represented the excess of i-STT Hong Kong's external liabilities over its assets at the date of abandonment.



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*Other Operating Expenses.* The other operating expenses of \$2.1 million for the year ended December 31, 2001 mainly relate to an impairment in value of computer hardware and software amounting to \$1.8 million. These assets, which were acquired in year 2000, were purchased for sales of Web-based application services. As a result of the general economic downturn in the internet related economy in second half of year 2000, these assets were not put in use and were not expected to generate revenue in the foreseeable future. Other operating expenses also include the corporate management fees charged by Singapore Technologies Pte Ltd of \$148,000 and \$163,000 during 2001 and 2000, respectively.

*Other Income.* Other income was \$44,000 during the year ended December 31, 2001 compared to \$89,000 during the year ended December 31, 2000. In 2001, i-STT received other income from the sub rental of its leased space in Shanghai, China amounting to \$44,000. i-STT has subleased its leased space in Shanghai, until such time as management decides to commence operations at this location. i-STT did not lease or sublease any space in Shanghai during 2000 as it did not begin its expansion into Shanghai until 2001. In 2000, \$85,000 of other income consisted of interest income derived from interest bearing bank balances.

*Interest Expense.* Interest expense increased from \$229,000 for the year ended December 31, 2000 to \$967,000 for the year ended December 31, 2001. The increase in interest expense is due to higher borrowings related to an interest bearing loan from i-STT's immediate parent holding company of \$13.8 million, \$11.2 million and \$600,000, respectively, for Singapore operations, Hong Kong operations and i-STT's Mauritius subsidiary. During 2001, the shareholders approved the conversion of \$18.4 million of a loan from i-STT's immediate parent holding company to capital stock in September 2001. Included in interest expense for the year ended December 31, 2001 was interest expense of \$36,000 on a loan from a Thailand bank that was used to finance the expansion of i-STT's Bangkok WEBCentre operations. In addition, the September 2001 capitalization of certain borrowings from i-STT's immediate parent holding company resulted in an approximately \$150,000 reduction in interest expense.

*Minority Interest.* Minority interest represents a share of loss by i-STT's minority shareholders in its Thailand subsidiary of \$411,000 during the year ended December 31, 2001 as compared to \$524,000 for the year ended December 31, 2000, relating to the Thailand and Hong Kong subsidiaries. i-STT had a 60% interest in the Thailand subsidiary during 2001 and 2000 and a 60% interest in its Hong Kong subsidiary during the year ended December 31, 2000, and until its abandonment in 2001.

**Liquidity and Capital Resources**

Since its founding in January 2000, i-STT has financed its operations and capital requirements primarily through capital infusions of shareholder loans and guarantees by STT Communications. As of September 30, 2002, i-STT's total share capital was \$31.0 million and it had outstanding shareholder loans of \$17.2 million. i-STT's principal sources of liquidity were cash and cash equivalents at September 30, 2002 that totaled approximately \$1.6 million. The entire outstanding balance of these shareholder loans will be converted to equity prior to closing of the combination.

Net cash used in i-STT's operating activities for the nine months ended September 30, 2002 was \$2.4 million compared to \$14.5 million for the comparable period in 2001. This decrease is mainly due to closure of our Hong Kong operations, cost saving initiatives resulting from staff reduction, reduction in employees' salaries and bonuses and a general decrease in discretionary spendings, including advertising and marketing expenses. We anticipate that this trend will continue in future periods. For the years ended December 31, 2001 and 2000, i-STT's net cash used in operating activities was \$17.2 million and \$6.5 million, respectively, primarily to fund its net loss from operations for all periods since its inception.

i-STT's net cash used in investing activities was \$1.4 million for the nine months ended September 30, 2002 compared to \$15.1 million for the comparable period in 2001. The reduction in net cash used in i-STT's investing activities during the 2002 nine-month period was the result of i-STT's reduction in capital spending. Net cash used in investing activities was \$15.5 million and \$17.8 million for the year ended December 31, 2001 and 2000,

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respectively. Net cash used in investing activities was primarily attributable to the construction of i-STT's WEBCentre facilities and related plant and equipment.

Net cash generated from i-STT's financing activities was \$2.6 million for the nine months ended September 30, 2002 compared to \$25.5 million for the corresponding period in 2001. The net cash from financing activities generated for the nine months ended September 30, 2002 was primarily attributable to \$2.3 million of proceeds received from shareholder loans and the \$517,000 draw down under i-STT's existing loan agreement with respect to the construction and operation of its Bangkok WEBCentre facility. Net cash generated from financing activities was \$31.0 million and \$29.5 million for the years ended December 31, 2001 and 2000, respectively. The net cash generated from financing activities was primarily attributable to \$30.0 million and \$16.1 million of proceeds received from shareholder loans during 2001 and 2000, respectively, and the \$727,000 draw down under i-STT's Thai loan agreement during the year ended December 31, 2001.

In June 2001, i-STT entered into a project financing loan agreement with a Thailand bank in the amount of \$6.0 million with respect to the construction and operation of its Bangkok WEBCentre facility. This loan agreement bears interest at the floating rate between 4% and 8% per annum and provides for a combination of tranches of term loans with a 57-month maturity and short term working capital loans not to exceed three months in term. This loan has been jointly guaranteed by STT Communications and the minority shareholders in their proportionate percentage of ownership in i-STT's Thailand subsidiary. As of September 30, 2002, \$1.2 million had been drawn under the loan.

i-STT leases the facilities for its WEBCentre data centers in Singapore and Bangkok and leases equipment under non-cancelable operating lease agreements expiring at various dates through 2004. The WEBCentre leases provide i-STT with an option to renew for an additional term of tenancy with mutual agreement. The following represents the minimum future operating lease payments for i-STT's commitments as of September 30, 2002, December 31, 2001 and December 31, 2000:

	September 30, 2002	December 31, 2001	December 31, 2000
Within one year	\$ 1.5 million	\$ 1.4 million	\$ 1.0 million
Within two to five years	\$ 0.4 million	\$ 1.2 million	\$ 2.1 million
After five years	\$	\$	\$ 1.0 million
	<b>\$ 1.9 million</b>	<b>\$ 2.6 million</b>	<b>\$ 4.1 million</b>

The commitment beyond the fifth year from December 31, 2000 of \$1.0 million was an obligation of i-STT's Hong Kong subsidiary which has subsequently entered into voluntary liquidation as of September 2001.

In addition to its commitments under the above operating lease agreements, in connection with securing the necessary licenses to allow the possible future start-up of its Shanghai, China operations, i-STT has entered into commitments with the Shanghai Pudong District Government in the People's Republic of China to contribute \$5.0 million in share capital to its Shanghai subsidiary, i-STT (Shanghai) Co., Ltd, to fund its operations. i-STT currently has contributed \$750,000 of its \$5.0 million commitment, with the remaining \$4.25 million due to be contributed by March 1, 2004. i-STT intends to apply to the Shanghai authorities for a reduction in the required amount to be contributed, but it is uncertain whether such reduction will be granted. Under the combination agreement, STT Communications has agreed to indemnify the combined company for all amounts it may be required to pay to comply with such capital requirements or, alternatively, in liquidating the Shanghai subsidiary, to the extent such amounts exceed \$25,000.

i-STT expects its aggregate capital expenditures to be approximately \$750,000 in the last quarters of 2002 and approximately \$2.5 million in 2003. In the event the combination is not consummated, i-STT expects that it would continue to fund the majority of these expenditures through capital infusions and/or commercial loans. Thereafter, i-STT may require additional funds to support its working capital requirements for other purposes and may seek to raise additional funds through other sources. There can be no assurance that additional financing will be available at all, or, if available, that such financing will be obtainable on terms favorable to i-STT.

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**DESCRIPTION OF PIHANA S BUSINESS**

Pihana designs and builds next generation neutral data centers to house critical Internet systems for Internet service providers, telecommunications carriers, application service providers, content service providers, and enterprise customers. Pihana deploys a state-of-the-art Internet exchange network to facilitate high performance routing of Internet traffic and provides an integrated suite of services including enterprise system management, storage, colocation and disaster recovery services.

Pihana was incorporated in Delaware on June 11, 1999 and the initial announcement of its existence was made in January 2000 when the company announced that it had secured a \$12.0 million seed investment. At that time, Pihana was named Pacific Internet Exchange. The official company launch, with the Pihana brand, was announced October 31, 2000 in conjunction with a \$190.0 million equity investment. Pihana established a new model of Internet and business communication exchange in Asia/Pacific by enabling customers to interact with vendors and partners throughout its neutral Internet exchange/data center locations in Asia/Pacific. Pihana s neutral, world-class colocation data centers and Internet exchanges enable Internet service providers, or ISPs, and content service providers to launch a new, powerful model in cost-effective, delivery-efficient Internet commerce.

Pihana s regional footprint includes seven fully-operational facilities in Los Angeles, California, Singapore, Tokyo, Japan, Seoul, South Korea, Sydney, Australia, Hong Kong and Honolulu, Hawaii. Pihana has a regional headquarters in Hong Kong and sales offices in Hong Kong, Los Angeles, California, San Francisco, California, Tokyo, Japan, Seoul, South Korea, Singapore, Sydney, Australia, and Honolulu, Hawaii. The combination agreement requires Pihana to (a) dispose of its Seoul, South Korea, data center subsidiary, (b) reduce headcount in its Singapore and Los Angeles data centers and Honolulu headquarter facility and (c) enter into arrangements terminating its office lease in Singapore, its headquarters lease Honolulu, Hawaii and part of its data center lease in Los Angeles, California.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS OF PIHANA**

**Overview**

Pihana was incorporated on June 11, 1999 and was a development stage company until fiscal 2001. From its inception to December 31, 2001, Pihana's main business was planning, acquiring space for, and developing internet data centers in the Asia/Pacific region. After December 31, 2001, Pihana's main business shifted to operating its data centers. To date, Pihana has seven data centers in Los Angeles, California, Singapore, Tokyo, Japan, Seoul, South Korea, Sydney, Australia, Hong Kong and Honolulu, Hawaii.

The combination agreement requires Pihana to (a) dispose of its Seoul, South Korea data center subsidiary, (b) reduce headcount in its Singapore and Los Angeles, California, data centers and Honolulu, Hawaii headquarter facility and (c) enter into arrangements terminating its office lease in Singapore, its headquarters lease in Honolulu, Hawaii and part of its data center lease in Los Angeles, California. The discussion below was prepared for Pihana as a stand alone enterprise and does not give effect to the transactions contemplated by the combination agreement.

**Critical Accounting Policies**

*Revenue Recognition.* Pihana records revenues when it has a contract or other persuasive evidence of an arrangement with its customer, delivery services have been rendered, Pihana's price to its customer is fixed or determinable, and collectibility is reasonably assured.

Pihana periodically monitors the credit worthiness of its customers to determine whether its receivables are recorded at their net realizable value and whether revenue should be recorded for services provided in the current period.

*Foreign Exchange/Treasury Activities.* In preparing Pihana's consolidated financial statements, Pihana is required to translate the financial statements of its foreign subsidiaries from the currency in which they keep their accounting records, generally the local currency, into U.S. dollars. This process results in exchange gains and losses which, under the relevant accounting guidance are either included within the statement of operations or as a separate part of Pihana's stockholders' deficit under the caption accumulated other comprehensive loss.

The treatment of these translation gains or losses is dependent upon Pihana's management's determination of the functional currency of each subsidiary. The functional currency is determined based on management's judgment and involves consideration of all relevant economic facts and circumstances affecting the subsidiary.

If any subsidiary's functional currency is deemed to be the local currency, then any gain or loss associated with the translation of that subsidiary's financial statements is included in cumulative translation adjustments. However, if the functional currency is deemed to be the U.S. dollar, any gain or loss associated with the translation of the subsidiary's financial statements would be included within Pihana's statement of operations. If we dispose of any of our subsidiaries, any cumulative translation gains or losses would be realized into its statement of operations.

Pihana considers the relevant subsidiary's local currency to be the functional currency for each of its international subsidiaries.

The magnitude of these gains or losses is dependent upon movements in the exchange rates of the foreign currencies in which Pihana transacts business against the U.S. dollar. These currencies include the Japanese Yen, South Korean Won and the Singapore dollar, Hong Kong dollar and Australian dollar. Any future translation gains or losses could be significantly higher than those noted in each of these years.

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As Pihana conducts its operations in multiple countries, the results of its operations are exposed to movements in foreign currency exchange rates. Pihana has not entered into forward exchange contracts to reduce exposures associated with nonfunctional currency accounts receivable and accounts payable denominated in currencies other than U.S. Dollars nor does it hedge anticipated foreign currency cash flows.

*Carrying Value of Fixed Assets.* Pihana has made significant investments in leasehold improvements and computer equipment and software. These assets are carried at historical cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of the lease term or their useful lives and most computer equipment and software is depreciated over a two or three year period.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 requires that long-lived assets to be disposed of by sale be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations.

Pihana adopted the provisions of SFAS 144 with effect from January 1, 2002. In accordance with the provisions of SFAS 144, Pihana's management considered whether indicators exist which would indicate that an impairment assessment should be undertaken. This review was undertaken during the three months ended June 30, 2002 and Pihana's management concluded that as a result of a number of factors it would appear to be appropriate to consider whether Pihana's long-lived assets, consisting primarily of its internet exchange centers, are impaired. Among the factors Pihana's management considered were:

- the continuing challenges seen in the managed service sector and the impact this has had on a number of targeted customers, such as Global Crossing, MFN, Worldcom and Level 3;
- the impact of the current economic outlook on management's forecasted results for these assets and the ability to achieve their original forecasted results;
- the appointment of an investment banker in April 2002 to assist with the exploration of possible sale transactions for Pihana;
- the status of discussions in progress with certain suitors with regard to the potential sale of assets to a third party; and
- the expected resale value of Pihana's fixed assets being significantly below their book value given current market conditions.

Following this impairment assessment, Pihana management determined that the carrying value of the assets exceeded their estimated fair values and recorded an impairment charge of approximately \$77.0 million to write-down the value of long-lived assets during the three months ended June 30, 2002. Pihana management determined the fair value of assets based on the best available evidence and applied the traditional present value technique as permitted under SFAS 144 using a discount rate of 25%. This discount rate was based upon the risk-free rate of interest plus an adjustment for a market risk premium based upon historical risk premiums required by investors for companies of Pihana's size, industry and capital structure and included risk factors specific to Pihana. In addition, in determining the market risk premium, Pihana management considered venture capital rates of return required for investment companies during their early stages of development and the risk associated with the corresponding operating challenges.

*Lease Obligations.* Pihana has financed its business largely by relying upon equity financing; accordingly, capital lease obligations are the largest component of Pihana's non-current liabilities. Pihana had over \$74.6 million of remaining operating lease obligations as of December 31, 2001. SFAS No. 13, *Accounting for Leases*, specifies that these amounts are not to be recorded as liabilities on Pihana's balance sheet although they represent Pihana's largest fixed obligations.

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**Table of Contents****Results of Operations***Nine Months Ended September 30, 2002 and 2001*

**Revenues.** Pihana recognized revenues of approximately \$3.1 million for the nine months ended September 30, 2002 versus revenues of approximately \$342,000 for the nine months ended September 30, 2001. Revenues consisted of recurring revenues of approximately \$2.7 million and approximately \$263,000 for the nine months ended September 30, 2002 and 2001, respectively. Recurring revenues are revenues recognized from contracts for monthly service (space rental and network access) with customers. Non-recurring revenues were approximately \$430,000 and approximately \$79,000 for the nine months ended September 30, 2002 and 2001, respectively. Non-recurring revenues are primarily the amortization of installation and service fees (which are recognized ratably over the life of the customer contract), and revenues from custom services and disaster recovery services, which are recognized when the service has been performed and the customer has been invoiced.

The period over period growth was primarily driven by the increase in the number of operating data centers to seven data centers at September 30, 2002 from six data centers at September 30, 2001. Although the economic environment is challenging, Pihana believes that it will be able to continue to gain customers as its data centers mature. The rate of revenue growth is very high when a new data center comes on-line and is expected to normalize over time. Pihana's management does not yet have enough experience with each of its data centers to accurately predict what their normalized revenues and gross margins will be.

**Cost of Revenues.** Pihana recognized cost of revenues of approximately \$23.9 million for the nine months ended September 30, 2002 versus cost of revenues of approximately \$23.2 million for the nine months ended September 30, 2001. These amounts included approximately \$8.8 million and \$5.9 million, respectively, of depreciation expense primarily relating to data center leasehold interests, property and software. Excluding depreciation, the period over period reduction is primarily due to costs savings implemented to streamline data center operations and the reduction of data center start-up costs. During the nine months ended September 30, 2002, there were no non-recurring start-up costs and during the nine months ended September 30, 2001 non-recurring start-up costs amounted to approximately \$1.7 million.

**Sales and Marketing.** Pihana recognized sales and marketing expenses of approximately \$5.2 million for the nine months ended September 30, 2002 versus sales and marketing expenses of approximately \$6.6 million for the nine months ended September 30, 2001. The initial opening of a data center involves significant non-recurring costs that are not capitalizable. During the nine months ended September 30, 2002, there were no opening related costs and, during the nine months ended September 30, 2001, the opening related costs amounted to approximately \$700,000 for the opening of the Los Angeles, California, Singapore, Tokyo, Japan, Seoul, South Korea and Hong Kong data centers. Sales and marketing expenses are also comprised of salary and other employee related costs. In addition, Pihana's sales force reduced to 50 employees by September 30, 2002 compared to 64 employees at September 30, 2001.

**General and Administrative.** Pihana recognized general and administrative expenses of approximately \$8.0 million for the nine months ended September 30, 2002 versus general and administrative expenses of approximately \$8.2 million for the nine months ended September 30, 2001. These amounts include approximately \$980,000 and \$661,000, respectively, of depreciation expense. Excluding depreciation, the period over period growth is primarily the result of completing Pihana's corporate staff as the company transitioned from a development stage enterprise to an operating business.

**Impairment of long-lived assets.** Pihana adopted the provisions of SFAS 144 with effect from January 1, 2002. In accordance with the provisions of SFAS 144, Pihana management determined that the carrying value of Pihana's assets exceeded their fair values and recorded an impairment charge of approximately \$77.0 million to write-down the value of long-lived assets during the nine months ended September 30, 2002. Pihana management determined the fair value of assets based on the best available evidence and applied the traditional present value

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technique as permitted under SFAS 144 using a discount rate of 25%. No impairment charge was recorded prior to this date.

*Non-recurring charges.* Pihana recorded \$2.8 million of non-recurring charges in the nine months ended September 30, 2002 consisting of a \$1.3 million cash payment and a \$750,000 write down of license agreement rights in connection with termination of Pihana's three year technology license agreement and a \$700,000 write-down in assets in connection with a lease termination. In the nine months ended September 30, 2001, Pihana recorded a non-recurring charge of \$463,000 related to the termination of Pihana's Osaka, Japan lease.

*Net Interest Income.* Interest income has exceeded interest expense since Pihana's inception because the company relied on equity funding rather than borrowing money. Pihana recognized interest income, net of interest expense, of approximately \$1.1 million for the nine months ended September 30, 2002 versus net interest income of approximately \$4.7 million for the nine months ended September 30, 2001.

*Foreign Currency Gain or Loss.* Pihana recognizes foreign currency gains and losses with respect to revenues and expenses that are denominated in currencies other than U.S. dollars. Pihana calculates an average exchange rate over each accounting period between the currency in which the applicable revenues or expenses are denominated and U.S. dollars. That average rate is then applied to all revenues and expenses for the period and any differences between the actual amounts paid or received and the computed average exchange rate is recognized as foreign currency gain or loss. Foreign currency losses of approximately \$410,000 were recognized for the nine months ended September 30, 2002 and gains of approximately \$424,000 were recognized for the nine months ended September 30, 2001. Pihana's management has not entered into any hedging contracts with respect to Pihana's foreign currency exposure because those amounts have not been material to date and there has been low volatility over Pihana's operating life in the exchange ratio between the U.S. dollar and each of the Korean Won, Singapore dollar, Hong Kong dollar, Japanese Yen and Australian dollar.

*Income Taxes.* Pihana has fully reserved against its deferred tax assets because Pihana can not conclude that it is more probable than not that it will have taxable income in the years during which its deferred tax items (primarily net operating loss carryforwards) may be used. Pihana recognized a benefit from income taxes of approximately \$668,000 in the nine months ended September 30, 2001. This benefit was the result of a refundable research and development credit from the State of Hawaii. The State of Hawaii's tax law contains provisions granting technology companies refunds for qualifying expenditures. No benefit was recognized in the nine months ended September 30, 2002.

*Year Ended December 31, 2001 and 2000*

*Revenues.* Pihana recognized revenues of approximately \$1.0 million for the year ended December 31, 2001 versus revenues of approximately \$13,000 for the year ended December 31, 2000. Revenues consisted of recurring revenues of approximately \$870,000 and \$10,000 for the year ended December 31, 2001 and 2000, respectively. Recurring revenues are revenues recognized from contracts for monthly service (space rental and network access) with customers. Non-recurring revenues were approximately \$130,000 and \$3,000 for the year ended December 31, 2001 and 2000, respectively.

The period over period growth was primarily driven by the increase in the number of operating data centers to seven data centers at December 31, 2001 from one data center at December 31, 2000.

*Cost of Revenues.* Pihana recognized cost of revenues of approximately \$31.8 million for the year ended December 31, 2001 versus cost of revenues of approximately \$10.0 million for the year ended December 31, 2000. These amounts include approximately \$9.0 million and \$800,000, respectively, of depreciation expense relating primarily to our data centers leasehold interests, property and software. Excluding depreciation, the period over period growth is primarily due to increase in the number of operating data centers. During the year ended December 31, 2001, non-recurring costs amounted to approximately \$5.8 million and during the year ended December 31, 2000 amounted to approximately \$1.0 million.

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*Sales and Marketing.* Pihana recognized sales and marketing expenses of approximately \$8.8 million for the year ended December 31, 2001 versus sales and marketing expenses of approximately \$3.1 million for the year ended December 31, 2000. During the year ended December 31, 2001, opening related costs for new data centers amounted to approximately \$1.5 million for the opening of the Los Angeles, California, Singapore, Tokyo, Japan, Seoul, South Korea, Hong Kong and Sydney, Australia data centers and, during the year ended December 31, 2000, approximately \$600,000 for the opening of the Honolulu, Hawaii data center. Pihana's sales force grew to 58 employees by December 31, 2001 compared to 37 employees at December 31, 2000.

*General and Administrative.* Pihana recognized general and administrative expenses of approximately \$10.9 million for the year ended December 31, 2001 versus general and administrative expenses of approximately \$5.4 million for the year ended December 31, 2000. These amounts include approximately \$1.0 million and \$100,000, respectively, of depreciation expense. Excluding depreciation, the period over period growth is primarily the result of Pihana's corporate staff growing as its operations grew.

*Non-recurring charges.* Pihana recorded a non-recurring charge of \$463,000 in the year ended December 31, 2001 related to the termination of Pihana's Osaka, Japan lease. No non-recurring charges were recorded in the year ended December 31, 2000.

*Net Interest Income.* Pihana recognized interest income, net of interest expense, of approximately \$5.3 million for the year ended December 31, 2001 versus net interest income of approximately \$2.3 million for the year ended December 31, 2000.

*Foreign Currency Gains.* Foreign currency gains of approximately \$605,000 were recognized for the year ended December 31, 2001 and no foreign currency gains or losses were recognized for the year ended December 31, 2000.

*Income Tax Benefit.* Pihana recognized a benefit from income taxes of approximately \$1.1 million in the year ended December 31, 2001 versus a benefit from income taxes of approximately \$224,000 in the year ended December 31, 2000. This benefit is the result of a refundable research and development credit from the State of Hawaii. The State of Hawaii's tax law contains provisions granting technology companies refunds for qualifying expenditures.

*Year Ended December 31, 2000 and the period from June 11, 1999 (inception) to December 31, 1999*

*Revenues.* Pihana recognized revenues of approximately \$13,000 for the year ended December 31, 2000 and no revenues in the period from June 11, 1999 (inception) to December 31, 1999 as during 1999 and 2000 Pihana commenced operations and the build-out of its data centers.

*Cost of Revenues.* Pihana recognized cost of revenues of approximately \$10.0 million for the year ended December 31, 2000 versus cost of revenues of approximately \$242,000 for the period from June 30, 1999 (inception) to December 31, 1999. These amounts include approximately \$800,000 and \$9,000, respectively, of depreciation expense. The period over period growth is primarily due to increase in the number of operating data centers and the costs of establishing operational infrastructure.

*Sales and Marketing.* Pihana recognized sales and marketing expenses of approximately \$3.1 million for the year ended December 31, 2000 versus sales and marketing expenses of approximately \$9,000 for the period from June 30, 1999 (inception) to December 31, 1999 as it commenced operations and the build-out of its data centers.

*General and Administrative.* Pihana recognized general and administrative expenses of approximately \$5.4 million for the year ended December 31, 2000 versus general and administrative expenses of approximately \$782,000 for the period from June 30, 1999 (inception) to December 31, 1999. These amounts include



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approximately \$100,000 and \$1,000, respectively, of depreciation expense. The period over period growth is primarily the result of Pihana's corporate staff growing as its operations grew.

*Net Interest Income.* Pihana recognized interest income, net of interest expense, of approximately \$2.3 million for the year ended December 31, 2001 versus net interest income of approximately \$44,000 for the period from June 30, 1999 (inception) to December 31, 1999.

*Income Tax Benefit.* Pihana recognized a benefit from income taxes of approximately \$224,000 in the year ended December 31, 2000 and no benefit in the period from June 30, 1999 (inception) to December 31, 1999 as no qualifying research and development expenditures had been incurred in the period from June 30, 1999 (inception) to December 31, 1999.

## **Liquidity and Capital Resources**

Pihana has financed its operations by relying on equity financing. In December 1999 and January 2000, Pihana issued five million shares of its Series A redeemable preferred stock at a price per share of \$2.40 yielding gross proceeds of \$12.0 million. In 2000, Pihana issued approximately 80 million shares of its Series B preferred stock at a price per share of \$2.79 yielding gross proceeds of approximately \$220.0 million. Pihana's Series A redeemable preferred stock is redeemable, together with cumulative dividends (which Pihana has been accruing) but in a liquidation or similar event ranks junior to its Series B preferred stock.

As of September 30, 2002, Pihana had cash on hand of approximately \$5.1 million and short term investments of approximately \$33.4 million. If Pihana were not pursuing the combination, Pihana would be selling assets and reducing headcount in order to improve its longer term prospects and conserve its cash resource.

## **Sources and Uses of Cash**

During the nine months ended September 30, 2002, Pihana:

- made payments of approximately \$1.3 million on its capital lease obligations;
- expended approximately \$3.1 million on property and equipment;
- increased its deposits with landlords by approximately \$900,000;
- reduced its accounts payable and accrued liabilities by approximately \$2.2 million; and
- recognized a net loss of approximately \$113.0 million, including a non-recurring, non-cash charge of \$77.0 million due to the impairment of long-lived assets.

The net effect of these transactions was to reduce cash and short term investments to approximately \$38.5 million at September 30, 2002 from approximately \$67.8 million at December 31, 2001.

During the nine months ended September 30, 2001, Pihana:

- expended approximately \$86.2 million on property and equipment;
- reduced its accounts payable and accrued liabilities by approximately \$3.8 million;
- recorded net proceeds of approximately \$2.5 million from the sale of additional shares of its Series B preferred stock; and
- recognized a net loss of approximately \$32.5 million.

The net effect of these transactions was to reduce cash and short term investments to approximately \$85.1 million at September 30, 2001 from approximately \$191.6 million at December 31, 2000.

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During the year ended December 31, 2001, Pihana:

recorded net proceeds of approximately \$2.5 million from the sale of additional shares of its Series B preferred stock;

expended approximately \$88.8 million on leasehold interests, computer equipment and software primarily for the build-out of Pihana's data centers in Hawaii, Los Angeles, Singapore, Tokyo, Seoul, Hong Kong and Sydney; and

recognized a net loss of approximately \$43.9 million.

The net effect of these transactions was a decrease in cash and short term investments to approximately \$67.8 million at December 31, 2001 from approximately \$191.6 million at December 31, 2000. Additionally, Pihana recorded approximately \$3.9 million of capital lease obligations in connection with the acquisition of fixed assets.

During the year ended December 31, 2000, Pihana:

recorded net proceeds of \$9.0 million from the sale of shares of its Series A preferred stock;

recorded net proceeds of approximately \$220.3 million from the sale of shares of its Series B preferred stock (including the approximately \$15.2 million of which were issued upon cancellation of bridge notes);

expended approximately \$23.7 million on leasehold interests, computer equipment and software primarily for the build-out of Pihana's data centers in Honolulu, Hawaii, Los Angeles, California, Singapore, Tokyo, Japan, Seoul, South Korea, Hong Kong and Sydney, Australia; and

recognized a net loss of approximately \$15.9 million.

The net effect of these and other transactions was an increase in cash and short term investments to approximately \$191.6 million at December 31, 2000 from approximately \$1.2 million at December 31, 1999.

During the period from June 30, 1999 (inception) to December 31, 1999, Pihana:

recorded net proceeds of \$3.0 million from the sale of shares of its Series A preferred stock;

expended approximately \$914,000 on leasehold interests, computer equipment and software primarily for the build-out of Pihana's data centers in Honolulu, Hawaii, Los Angeles, California, Singapore, Hong Kong, Tokyo, Japan, Seoul, South Korea, and Sydney, Australia; and

recognized a net loss of approximately \$989,000.

The net effect of these and other transactions was an increase in cash and short term investments from inception to approximately \$1.2 million at December 31, 1999.

Pihana's minimum payments for noncancelable leases at December 31, 2001 were as follows:

Year Ending December 31,	Capital Leases	Operating Leases
2002	\$ 1,909,000	\$ 7,883,000
2003	1,503,000	7,227,000
2004	293,000	7,153,000
2005		6,838,000
2006		6,894,000
Thereafter		38,665,000
<b>Total minimum lease payments</b>	<b>\$ 3,705,000</b>	<b>\$ 74,660,000</b>



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**Recent Accounting Pronouncements**

In November 2001, the EITF reached a consensus on EITF Issue No. 01-09, Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products, which is a codification of EITF Nos. 00-14, 00-22 and 00-25. This issue presumes that consideration from a vendor to a customer or reseller of the vendor's products is a reduction of the selling prices of the vendor's products and, therefore, should be characterized as a reduction of revenue when recognized in the vendor's income statement and could lead to negative revenue under certain circumstances. Revenue reduction is required unless consideration relates to a separate identifiable benefit and the benefit's fair value can be established. This issue should be applied no later than in annual or interim financial statements for periods beginning after December 15, 2001. Upon adoption, Pihana is required to reclassify all prior period amounts to conform to the current period presentation. The adoption of EITF No. 01-09 did not have a material impact on Pihana's financial position or results of operations.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. SFAS 146 eliminates the definition and requirement for recognition of exit costs in Emerging Issues Task Force Issue No. 94-3 where a liability for an exit cost was recognized at the date of an entity's commitment to an exit plan. SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. Pihana does not believe that the adoption of SFAS 146 will have a material impact on its results of operations, financial position or cash flows.

**Quantitative and Qualitative Disclosures about Market Risk**

*Interest Rate Risk.* Pihana's exposure to market risk resulting from changes in interest rate relates primarily to its investment portfolio. Pihana's interest income is impacted primarily by changes in the general level of interest rates in the U.S., particularly since the majority of its investments are short-term instruments. Due to the short-term nature of the investments, Pihana does not believe that it is subject to any material market risk exposure. An immediate 10% increase or decrease in current interest rates would not have a material effect on the fair market value of Pihana's investment portfolio. Pihana does not expect that its operating results of cash flows would be significantly affected by a sudden change in market interest rates.

The fair market value and book value of Pihana's investment portfolio at September 30, 2002 was approximately \$33.4 million. The fair market value was computed by reference to published market data and to quotations from broker-dealers for securities without a quoted market value.

*Foreign Currency Risk.* A significant portion of Pihana's business is conducted in Asia. Most of Pihana's customer contracts are denominated in U.S. dollars. Approximately 27% and 26% of Pihana's revenue for nine months ended September 30, 2002 and the year ended December 31, 2001, respectively, were denominated in currencies other than U.S. dollars. Many of Pihana's overseas expenditures are also denominated in the local currency.

Pihana has not entered into any hedging instruments with respect to its foreign currency risk because the amounts in issue are relatively insignificant and the exchange rates between the above non-U.S. currencies and the U.S. dollar have been relatively stable over the recent past.

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**DESCRIPTION OF CAPITAL STOCK**

**General**

We are currently authorized to issue 300.0 million shares of common stock, \$0.001 par value and 10.0 million shares of undesignated preferred stock, \$0.001 par value. As of September 30, 2002, 98,892,711 shares of common stock were outstanding, 23,128,998 shares of common stock were issuable upon exercise of outstanding options and no shares of preferred stock were outstanding.

**Common Stock**

The holders of common stock are entitled to one vote per share on all matters to be voted on by the stockholders. In the event of our liquidation, dissolution, or winding up of us, the holders of common stock are entitled to share ratably in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding. The common stock has no preemptive or conversion rights or other subscription rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and nonassessable.

**Preferred Stock**

Our board of directors has the authority to issue preferred stock in one or more series and to fix the rights, preferences, privileges and restrictions thereof, including dividend rights, dividend rates, conversion rights, voting rights, terms of redemption, redemption prices, liquidation preferences and the number of shares constituting any series or the designation of such series, without any further vote or action by the stockholders. The issuance of preferred stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of delaying, deferring or preventing a change in control of us without further action by the stockholders and may adversely affect the market price of, and the voting and other rights of, the holders of common stock. The issuance of preferred stock with voting and conversion rights may adversely affect the voting power of the holders of common stock, including the loss of voting control to others.

**Anti-takeover effects of provisions of the certificate of incorporation and bylaws**

Our restated certificate of incorporation and bylaws provide that all stockholder actions must be effected at a duly called meeting and not by a consent in writing. The bylaws also provide that, except as otherwise required by law or by our restated certificate of incorporation, special meetings of the stockholders can only be called pursuant to a resolution adopted by a majority of the whole board of directors (which includes the total number of authorized directors whether or not there are vacancies), or by the chairman of the board of directors or the president or at the request of stockholders holding at least 30% of our capital stock. Further, provisions of the bylaws and the restated certificate of incorporation provide that the stockholders may amend the bylaws or most provisions of the restated certificate of incorporation only with the affirmative vote of 66 <sup>2</sup>/<sub>3</sub>% of our capital stock.

These provisions of the restated certificate of incorporation and bylaws could discourage potential acquisition proposals and could delay or prevent a change in control of us. These provisions are intended to enhance the likelihood of continuity and stability in the composition of the board of directors and in the policies formulated by the board of directors and to discourage certain types of transactions that may involve an actual or threatened change of control of us. These provisions are designed to reduce our vulnerability to an unsolicited acquisition proposal. The provisions also are intended to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and, as a consequence, they also may inhibit fluctuations in the market price of our shares that could result from actual or rumored takeover attempts. Such provisions also may have the effect of preventing changes in our management.

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### **Transfer agent and registrar**

The Transfer Agent and Registrar for our common stock is EquiServe L.P.

### **Post-closing capital stock**

*General.* In connection with the combination and the financing, we plan to issue shares of Series A preferred stock and Series A-1 preferred stock. In addition, as described in Proposals 2 through 4 Principal Effects of a Reverse Stock Split, we are proposing a new restated certificate of incorporation to effect a reverse stock split and an increase in the number of authorized shares of common stock and preferred stock as described in this proxy statement.

### **Series A preferred stock and Series A-1 preferred stock**

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

three directors for so long as the holders of Series A preferred stock collectively beneficially own at least 30% of our outstanding voting stock;

two directors for so long as the holders of Series A preferred stock collectively beneficially own at least 15% of our outstanding voting stock;

one director for so long as the holders of Series A preferred stock collectively beneficially own at least 100 shares of our outstanding voting stock; and

no directors at such time as the holders of Series A preferred stock collectively beneficially own less than 100 of our outstanding voting stock.

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

*Liquidation Rights.* In the event of our liquidation, dissolution or winding up, our assets available for distribution to stockholders will be distributed to holders of common stock, Series A preferred stock and Series A-1 preferred stock on a pro rata basis, based on the number of shares of common stock held by each assuming full conversion of Series A preferred stock and Series A-1 preferred stock, until holders of Series A preferred stock and Series A-1 preferred stock have received \$0.306 per share of Series A preferred stock and Series A-1 preferred stock, plus the amount of any declared but unpaid dividends for each share of Series A preferred stock and Series A-1 preferred stock. Thereafter, any remaining available assets for distribution to stockholders will be distributed among the holders of our common stock pro rata based on the number of shares of common stock held by each.

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

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*Conversion and Other Rights.* Our Series A preferred stock is convertible at any time into shares of common stock. Our Series A-1 preferred stock is convertible into Series A preferred stock on a one-for-one basis or shares of common stock as long as (i) the conversion of the Series A-1 preferred stock will not cause STT Communications to hold more than 40% of outstanding voting stock and (ii) the value of all outstanding voting stock held by STT Communications will not exceed \$50.0 million or any threshold that would require compliance with the HSR Antitrust Improvements Act of 1976, as amended, unless STT Communications has previously complied with the HSR Act. Notwithstanding these limitations, and except for limitations imposed by the HSR Act, our Series A-1 preferred stock is convertible into Series A preferred stock or common stock in the following circumstances:

STT Communications makes a fully financed tender offer for all of our outstanding stock and at least 50% of the outstanding shares not held by STT Communications are tendered;

we commence bankruptcy or reorganization proceedings;

a third party obtains a 15% interest in us;

we agree to sell a 15% or greater interest in us to a third party;

we sell all or substantially all of our assets, or enter into an agreement to sell all or substantially all of our assets;

a third party commences a bona fide, fully financed tender offer;

STT Communications' nominees are not elected to our board of directors despite STT Communications voting in favor of such nominees;

we breach certain material agreements with STT Communications contained in the securities purchase agreement and combination agreement;

STT Communications' interest in us falls below 10%; or

the cash trigger warrant is exercised.

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

Our Series A preferred stock and Series A-1 preferred stock have no preemptive or other subscription rights.

**Table of Contents****PRINCIPAL STOCKHOLDERS**

The following table sets forth, as of November 30, 2002, information with respect to shares beneficially owned by (i) each person who is known by us to be the beneficial owner of more than five percent of our outstanding shares of common stock, (ii) each of our directors, (iii) each of our executive officers required to be listed pursuant to Item 402 of Regulation S-K, and (iv) all current directors and executive officers as a group. Beneficial ownership has been determined in accordance with Rule 13d-3 under the Exchange Act. Under this rule, certain shares may be deemed to be beneficially owned by more than one person (if, for example, persons share the power to vote or the power to dispose of the shares). In addition, shares are deemed to be beneficially owned by a person if the person has the right to acquire shares (for example, upon exercise of an option or warrant) within 60 days of the date as of which the information is provided. In computing the percentage ownership of any person, the amount of shares is deemed to include the amount of shares beneficially owned by such person (and only such person) by reason of such acquisition rights. As a result, the percentage of outstanding shares of any person as shown in the following table does not necessarily reflect the person's actual voting power at any particular date.

Name of Beneficial Owner	Shares Beneficially Owned		
	Number of Shares	Percentage of Total	
		Before the Combination, the Financing and the Senior Note Exchange	After the Combination, the Financing and the Senior Note Exchange
Peter F. Van Camp(1) 2450 Bayshore Parkway Mountain View, CA 94043	4,496,657	4.36%	*
Albert M. Avery, IV(2) 2450 Bayshore Parkway Mountain View, CA 94043	2,673,586	2.70%	*
Philip J. Koen(3) 2450 Bayshore Parkway Mountain View, CA 94043	1,645,423	1.65%	*
Andrew S. Rachleff(4) 2480 Sand Hill Road, Suite 200 Menlo Park, CA 94025	8,697,625	8.79%	1.98%
Michelangelo Volpi(5) 170 West Tasman Drive San Jose, CA 95134	0		
Scott Kriens(6) 1194 North Mathilda Avenue Sunnyvale, CA 94089-1206	30,000	*	*
Marjorie S. Backaus(7) 2450 Bayshore Parkway Mountain View, CA 94043	804,328	*	*
Peter T. Ferris(8) 2450 Bayshore Parkway Mountain View, CA 94043	864,332	*	*
Entities affiliated with Benchmark Capital(9) 2480 Sand Hill Road, Suite 200 Menlo Park, CA 94025	8,667,625	8.76%	1.97%
Cisco Systems, Inc. 170 West Tasman Drive San Jose, CA 95134	6,790,939	6.86%	1.54%



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Name of Beneficial Owner	Shares Beneficially Owned		
	Number of Shares	Percentage of Total	
		Before the Combination, the Financing and the Senior Note Exchange	After the Combination, the Financing and the Senior Note Exchange
Entities affiliated with Crown Hill Trust(10) 2311 Cedar Springs Road, Suite 100 Dallas, TX 75201-6932	4,990,776	5.05%	1.14%
All current directors and executive officers as a group (10 persons)(11)	20,388,472	19.19%	4.32%

\* Less than 1%.

- (1) Includes 4,296,657 shares subject to options that are exercisable within 60 days of November 30, 2002.
- (2) Includes 122,666 shares subject to options that are exercisable within 60 days of November 30, 2002.
- (3) Includes 980,823 shares subject to options that are exercisable within 60 days of November 30, 2002. Also includes 15,000 shares held as custodian for children; Mr. Koen disclaims beneficial ownership of these shares.
- (4) Represents 8,535,000 shares of common stock held by Benchmark Capital Partners II, L.P., as nominee for Benchmark Capital Partners II, L.P., Benchmark Founders Fund II, L.P., Benchmark Founders Fund II-A, L.P. and Benchmark Members Fund II, L.P., and 118,523 shares of common stock held by Benchmark Capital Partners IV, L.P., as nominee for Benchmark Capital Partners, IV, L.P., Benchmark Founders Fund IV, L.P., Benchmark Founders Fund IV-A, L.P. and related individuals. Mr. Rachleff is a managing member of Benchmark Capital Management Co. II, LLC, the general partner of Benchmark Capital Partners, II, L.P., Benchmark Founders Fund II, L.P. Benchmark Founders Fund II-A, L.P. and Benchmark Members Fund II, L.P. Mr. Rachleff is also a managing member of Benchmark Capital Management Co., IV, LLC, the general partner of Benchmark Capital Partners, IV, L.P., Benchmark Founders Fund IV, L.P. and Benchmark Founders Fund IV-A, L.P. Mr. Rachleff disclaims beneficial ownership of these shares, except with respect to 3,984 shares of common stock and to the extent of his pecuniary interest in the Benchmark funds. In addition, includes 6,250 shares of common stock and 10,000 shares subject to options that are exercisable within 60 days of November 30, 2002. Mr. Rachleff's address is the same as the address provided for Benchmark Capital.
- (5) Mr. Volpi is senior vice president of Cisco Systems, Inc., which beneficially holds 6,790,939 shares of common stock.
- (6) Includes 30,000 shares subject to options that are exercisable within 60 days of November 30, 2002.
- (7) Includes 689,332 shares subject to options that are exercisable within 60 days of November 30, 2002.
- (8) Includes 351,832 shares subject to options that are exercisable within 60 days of November 30, 2002.
- (9) Includes 8,535,000 shares of common stock held by Benchmark Capital Partners II, L.P., Benchmark Founders Fund II, L.P., Benchmark Founders Fund II-A, L.P. and Benchmark Members Fund II, L.P. and 132,625 shares of common stock held by Benchmark Capital Partners, IV, L.P., Benchmark Founders Fund IV, L.P., Benchmark Founders Fund IV-A, L.P. and related individuals. Pursuant to the Schedule 13G filed by Benchmark Capital with the SEC on February 14, 2002, Alexandre Balkanski, David M. Beirne, Bruce W. Dunlevie, J. William Gurley, Kevin R. Harvey, Robert C. Kagle, Andrew S. Rachleff and Steven M. Spurlock may be deemed to share voting and dispositive power over shares beneficially owned by Benchmark Capital and affiliated entities.
- (10) Pursuant to the Schedule 13G filed by Crown Hill Trust with the SEC on March 13, 2002, Michael Starcher and Virgil Pettigrew may be deemed to share voting and dispositive power over shares beneficially owned by Crown Hill Trust and affiliated entities.
- (11) Includes the shares described in Notes 1 through 10, plus shares held by or subject to options exercisable within 60 days of September 30, 2002 held by executive officers not named above.

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**EQUINIX STOCKHOLDER PROPOSALS**

Stockholders who intend to have a proposal considered for inclusion, pursuant to Rule 14a-8 of the Exchange Act, in our proxy materials for presentation at our 2003 annual meeting of stockholders must submit the proposal to us no later than December 30, 2002. Pursuant to Rule 14a-4(c) of the Exchange Act and our bylaws, stockholders who intend to present a proposal at our 2003 annual meeting without inclusion of their proposal in the proxy materials are required to notify us of their proposal not earlier than February 14, 2003 and not later than March 14, 2003. If we do not receive notification of the proposal within that time frame, the proxy holders will be allowed to use their discretionary voting authority to vote on the stockholder proposal when the proposal is raised at our 2003 annual meeting.

All stockholder proposals and notices of stockholder proposals should be sent to us at our offices at 2450 Bayshore Parkway, Mountain View, California 94043, Attn: General Counsel. We reserve the right to reject, rule out of order, or take other appropriate action with respect to any stockholder proposal that does not satisfy the conditions and rules established by the SEC.

**ACCOUNTANTS**

Representatives of PricewaterhouseCoopers, LLP, our independent accountants, are not expected to be present at the special meeting.

**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

We are required to file reports under the Exchange Act with the SEC. You can inspect and copy at prescribed rates the reports and other information that we file with the SEC at the public reference facilities maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549, and also at the regional offices of the SEC located at 7 World Trade Center, Suite 1300, New York, New York 10048 and the Citicorp Center at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. You may obtain information on the operation of the public reference facilities by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet web site at <http://www.sec.gov> that contains reports, proxy and information statements and other information. You can also obtain copies of those materials from us upon request.

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**REPORT OF INDEPENDENT ACCOUNTANTS**

To Board of Directors and Stockholders  
of Equinix, Inc.

In our opinion, the consolidated financial statements listed in the index appearing on page F-1, present fairly, in all material respects, the financial position of Equinix, Inc. and its subsidiaries at December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has incurred substantial losses and negative cash flows from operations in every fiscal period since inception. In addition, the Company's Amended and Restated Senior Secured Credit Facility contains numerous financial covenants that, given the current environment that the Company operates in, may be difficult to achieve. If the Company is unable to comply with these covenants, the Company may be required to repay the amounts currently outstanding under this facility. The Company does not currently have sufficient cash reserves to repay such amounts. The potential covenant breach and resultant acceleration of the outstanding borrowings raise substantial doubt about the Company's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California  
February 12, 2002, except for Note 12,  
which is as of March 22, 2002 and the  
going concern discussion in Note 1,  
which is as of June 12, 2002

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

	September 30, 2002  (unaudited)	December 31,	
		2001	2000
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 9,310	\$ 58,831	\$ 174,773
Short-term investments	2,312	28,890	32,437
Accounts receivable, net of allowance for doubtful accounts of \$431 (unaudited), \$381 and \$608, respectively	6,721	6,909	4,925
Current portion of restricted cash and short-term investments	47	47	15,468
Prepays and other current assets	10,881	8,541	10,373
	<u>          </u>	<u>          </u>	<u>          </u>
Total current assets	29,271	103,218	237,976
Property and equipment, net	386,699	325,226	315,380
Construction in progress		103,691	94,894
Restricted cash and short-term investments, less current portion	1,517	27,997	21,387
Debt issuance costs, net	8,695	11,333	11,916
Other assets	2,136	3,589	1,932
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	\$ 428,318	\$ 575,054	\$ 683,485
	<u>          </u>	<u>          </u>	<u>          </u>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 9,862	\$ 17,499	\$ 13,717
Accrued construction costs		34,650	89,343
Accrued interest payable	6,381	2,167	2,167
Current portion of debt facilities and capital lease obligations	5,562	7,206	4,426
Current portion of senior secured credit facility	100,000		
Other current liabilities	3,397	1,807	1,646
	<u>          </u>	<u>          </u>	<u>          </u>
Total current liabilities	125,202	63,329	111,299
Debt facilities and capital lease obligations, less current portion	3,192	6,344	6,506
Senior secured credit facility		105,000	
Senior notes	139,303	187,882	185,908
Other liabilities	12,755	8,978	4,656
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	280,452	371,533	308,369
	<u>          </u>	<u>          </u>	<u>          </u>
Commitments and contingencies (Note 8)			
Stockholders equity:			
Common stock, \$0.001 par value per share; 300,000,000 shares authorized; 98,892,711 (unaudited), 80,084,076 and 76,978,852 shares issued and outstanding, respectively	99	80	77
Additional paid-in capital	563,819	544,343	553,070
Deferred stock-based compensation	(4,244)	(11,022)	(38,350)
Accumulated other comprehensive loss	546	135	1,919

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Accumulated deficit	(412,354)	(330,015)	(141,600)
Total stockholders' equity	147,866	203,521	375,116
Total liabilities and stockholders' equity	\$ 428,318	\$ 575,054	\$ 683,485

The accompanying notes are an integral part of these consolidated financial statements.

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

	Nine Months Ended September 30,		Year Ended December 31,		
	2002	2001	2001	2000	1999
	(unaudited)				
Revenues	\$ 58,385	\$ 45,948	\$ 63,414	\$ 13,016	\$ 37
Costs and operating expenses:					
Cost of revenues (includes stock-based compensation of \$216 and \$412 (unaudited) for the nine months ended September 30, 2002 and 2001, respectively, and \$426, \$766 and \$177 for the years ended December 31, 2001, 2000, and 1999, respectively)	78,599	74,593	94,889	43,401	3,268
Sales and marketing (includes stock-based compensation of \$802 and \$2,344 (unaudited) for the nine months ended September 30, 2002 and 2001, respectively, and \$2,830, \$6,318, and \$1,631 for the years ended December 31, 2001, 2000 and 1999, respectively)	12,168	13,274	16,935	20,139	3,949
General and administrative (includes stock-based compensation of \$4,622 and \$13,285 (unaudited) for the nine months ended September 30, 2002 and 2001, respectively, and \$15,788, \$22,809, and \$4,819 for the years ended December 31, 2001, 2000 and 1999, respectively)	22,735	47,013	58,286	56,585	12,603
Restructuring charges	28,960	48,565	48,565		
<b>Total costs and operating expenses</b>	<b>142,462</b>	<b>183,445</b>	<b>218,675</b>	<b>120,125</b>	<b>19,820</b>
Loss from operations	(84,077)	(137,497)	(155,261)	(107,109)	(19,783)
Interest income	961	9,477	10,656	16,430	2,138
Interest expense	(26,411)	(32,948)	(43,810)	(29,111)	(3,146)
Gain on debt extinguishment	27,188				
<b>Net loss</b>	<b>\$ (82,339)</b>	<b>\$ (160,968)</b>	<b>\$ (188,415)</b>	<b>\$ (119,790)</b>	<b>\$ (20,791)</b>
Net loss per share:					
Basic and diluted	\$ (0.88)	\$ (2.07)	\$ (2.39)	\$ (3.48)	\$ (4.98)
Weighted average shares	93,687	77,843	78,681	34,461	4,173

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****EQUINIX, INC.****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
(in thousands, except share data)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Deferred Stock-based Compensation</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Accumulated Deficit</u>	<u>Total Stockholders Equity</u>
	<u>Shares</u>	<u>Amount</u>					
Balances as of December 31, 1998	6,150,000	\$ 6	\$ 1,140	\$ (972)	\$	\$ (1,019)	\$ (845)
Issuance of common stock upon exercise of common stock options	5,522,196	6	1,280				1,286
Issuance of common stock warrants			22,181				22,181
Deferred stock-based compensation, net of forfeitures			19,361	(19,361)			
Amortization of stock-based compensation				6,627			6,627
Comprehensive income (loss):							
Net loss						(20,791)	(20,791)
Unrealized appreciation on short-term investments					14		14
Net comprehensive loss					14	(20,791)	(20,777)