PTC INC.
Form 8-K
February 01, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D)

OF THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) January 30, 2018

PTC Inc.

(Exact Name of Registrant as Specified in Its Charter)

Massachusetts

(State or Other Jurisdiction of Incorporation)

0-18059	**04-2866152**
(Commission File Number)	**(IRS Employer Identification No.)**

140 Kendrick Street

Needham, Massachusetts **02494-2714**
(Address of Principal Executive Offices) **(Zip Code)**
(781) 370-5000

(Registrant s Telephone Number, Including Area Code)

(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Section 5 Corporate Governance and Management

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On January 30, 2018, Craig Hayman resigned effective as of February 13, 2018 to become the Chief Executive Officer of Aveva Group plc.

Section 7 Regulation FD

Item 7.01. Regulation FD Disclosure.

PTC hereby reaffirms its fiscal second quarter and full-year fiscal 2018 guidance provided on January 17, 2018.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

	PTC Inc.
Date: February 1, 2018	By: /s/Andrew Miller Andrew Miller Executive Vice President and Chief Financial Officer

ny s control whereby the underlying value of the property or basis for which the tax is calculated on the property may change, such as a landlord selling the underlying property of one of the Company s IBX center leases or a municipality changing the assessment value in a jurisdiction and, as a result, the Company s property tax obligations may vary from period to period. Based upon the most current facts and circumstances, the Company makes the necessary property tax accruals for each of its reporting periods. However, revisions in the Company s estimates of the potential or actual liability could materially impact the financial position, results of operations or cash flows of the Company.

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Employment Agreements

In January 2001, the Company had agreed to indemnify an officer of the Company for any claims brought by his former employer under an employment and non-compete agreement the officer had with this employer. As of December 31, 2007, no claims had been made by the former employer.

In November 2005, the Company entered into a transition and separation agreement with one of the Company s executive officers in which the agreed-upon separation date with the Company was in March 2006 (the Transition and Separation Agreement). Pursuant to the terms of the Transition and Separation Agreement, the Company accrued $668,000 of severance-related costs during 2005. In addition, the Company modified all outstanding stock option grants for this executive officer and, as a result, the Company recorded $1,389,000 of stock-based compensation expense during the fourth quarter of 2005 in connection with these modifications. During the year ended December 31, 2006, the Company paid $70,000 of the severance and accrued an additional severance charge of $207,000 for this officer. As of December 31, 2006, $805,000 of the severance-related costs for this ex-officer remained unpaid. During the year ended December 31, 2007, the Company paid $1,221,000 of severance and accrued an additional severance charge of $550,000 for this ex-officer. As of December 31, 2007, $134,000 of the severance-related costs for this ex-officer remained unpaid. The Company expects to resolve this matter in 2008.

The Company has entered into a severance agreement with each of its executive officers that provides for a severance payment equal to the executive officer s annual base salary and maximum bonus in the event his or her employment is terminated for any reason other than cause or he or she voluntarily resigns under certain circumstances as described in the agreement. In addition, under the agreement, the executive officer is entitled to the payment of his or her monthly health care premiums under the Consolidated Omnibus Budget Reconciliation Act for up to 12 months. For certain executive officers, these benefits are only triggered after a change-in-control of the Company.

Employee Benefit Plan

The Company has a 401(k) Plan that allows eligible employees to contribute a portion of their compensation, limited to $15,500, $15,000 and $14,000 for the years ended December 31, 2007, 2006 and 2005, respectively. Employee contributions and earnings thereon vest immediately. No employer contributions were made during the year ended December 31, 2005 or anytime prior. Commencing in 2006, the Company had elected to begin making contributions on behalf of its employees, which were limited to 50% of the employees first 6% of salary deferred into their 401(k) account and were subject to vesting based on the individual employee s start date. During the year ended December 31, 2007 and 2006, the Company s obligation to contribute to the 401(k) Plan was $1,122,000 and $885,000, respectively, of which $117,000 and $203,000 remained unpaid as of December 31, 2007 and 2006, respectively.

Guarantor Arrangements

As permitted under Delaware law, the Company has agreements whereby the Company indemnifies its officers and directors for certain events or occurrences while the officer or director is, or was serving, at the Company s request in such capacity. The term of the indemnification period is for the officer s or director s lifetime. The maximum potential amount of future payments the Company could be required to make under these indemnification

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

agreements is unlimited; however, the Company has a director and officer insurance policy that limits the Company s exposure and enables the Company to recover a portion of any future amounts paid. As a result of the Company s insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. The Company has no liabilities recorded for these agreements as of December 31, 2007.

The Company enters into standard indemnification agreements in the ordinary course of business. Pursuant to these agreements, the Company indemnifies, holds harmless, and agrees to reimburse the indemnified party for losses suffered or incurred by the indemnified party, generally the Company s business partners or customers, in connection with any U.S. patent, or any copyright or other intellectual property infringement claim by any third party with respect to the Company s services. The term of these indemnification agreements is generally perpetual any time after execution of the agreement. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. The Company has no liabilities recorded for these agreements as of December 31, 2007.

The Company enters into arrangements with its business partners, whereby the business partner agrees to provide services as a subcontractor for the Company s implementations. Accordingly, the Company enters into standard indemnification agreements with its customers, whereby the Company indemnifies them for other acts, such as personal property damage, of its subcontractors. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has general and umbrella insurance policies that enable the Company to recover a portion of any amounts paid. The Company has never incurred costs to defend lawsuits or settle claims related to these indemnification agreements. As a result, the Company believes the estimated fair value of these agreements is minimal. The Company has no liabilities recorded for these agreements as of December 31, 2007.

The Company has service level commitment obligations to certain of its customers. As a result, service interruptions or significant equipment damage in the Company s IBX centers, whether or not within the Company s control, could result in service level commitments to these customers. The Company s liability insurance may not be adequate to cover those expenses. In addition, any loss of services, equipment damage or inability to meet the Company s service level commitment obligations, particularly in the early stage of the Company s development, could reduce the confidence of the Company s customers and could consequently impair the Company s ability to obtain and retain customers, which would adversely affect both the Company s ability to generate revenues and the Company s operating results. The Company generally has the ability to determine such service level credits prior to the associated revenue being recognized. The Company has no significant liabilities in connection with service level credits as of December 31, 2007.

Under the terms of the Combination Agreement entered into as a result of the Company s acquisitions of Pihana Pacific, Inc. and i-STT Pte Ltd on December 31, 2002, the Company is contractually obligated to use commercially reasonable efforts to ensure that at all times from and after the closing of the Combination, until such time as neither STT Communications nor its affiliates hold the Company s capital stock or debt securities (or the capital stock received upon conversion of the debt securities) received by STT Communications in connection with the Combination, none of the Company s capital stock issued to STT Communications constitutes United States real property interests within the meaning of Section 897(c) of the Internal Revenue Code of 1986. Under Section 897(c) of the Code, the Company s capital stock issued to STT Communications would generally constitute United States real property interests at such point in time that the fair market value of the United States real property interests owned by the Company equals or exceeds 50% of the sum of the aggregate fair market values of (a) the Company s United States real property interests, (b) the Company s interests in real property located outside the U.S., and (c) any other assets held by the Company which are used

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

or held for use in the Company s trade or business. The Company refers to this provision in the Combination Agreement as the FIRPTA covenant. Pursuant to the FIRPTA covenant, the Company may be forced to take commercially reasonable proactive steps to ensure the Company s compliance with the FIRPTA covenant, including, but not limited to, (a) a sale-leaseback transaction with respect to all real property interests, or (b) the formation of a holding company organized under the laws of the Republic of Singapore which would issue shares of its capital stock in exchange for all of the Company s outstanding stock (this reorganization would require the submission of that transaction to the Company s stockholders for their approval and the consummation of that exchange). The Company has entered into an agreement with STT Communications and its affiliate pursuant to which, the Company will no longer be bound by the FIRPTA covenant as of September 30, 2009. Currently, the Company is in compliance with the FIRPTA covenant. The Company has no liabilities recorded related to non-compliance with the FIRPTA covenant as of December 31, 2007.

13. Related Party Transactions

Trade Activity with Affiliates of STT Communications and Other Related Parties

A significant amount of the Company s Asia-Pacific revenues are generated in Singapore and a significant portion of the business in Singapore is transacted with entities affiliated with STT Communications, which is the Company s single largest stockholder. For the year ended December 31, 2007, revenues recognized with related parties, primarily entities affiliated with STT Communications, were $8,396,000 and as of December 31, 2007, accounts receivable with these related parties was $2,128,000. For the year ended December 31, 2007, costs and services procured with related parties, primarily entities affiliated with STT Communications, were $1,219,000 and as of December 31, 2007, accounts payable with these related parties was $122,000. For the year ended December 31, 2006, revenues recognized with related parties, primarily entities affiliated with STT Communications, were $5,912,000 and as of December 31, 2006, accounts receivable with these related parties was $1,413,000. For the year ended December 31, 2006, costs and services procured with related parties, primarily entities affiliated with STT Communications, were $3,710,000 and as of December 31, 2006, accounts payable with these related parties was $313,000. For the year ended December 31, 2005, revenues recognized with related parties, primarily entities affiliated with STT Communications, were $6,034,000 and as of December 31, 2005, accounts receivable with these related parties was $811,000. For the year ended December 31, 2005, costs and services procured with related parties, primarily entities affiliated with STT Communications, were $3,148,000 and as of December 31, 2005, accounts payable with these related parties was $574,000.

Other Transactions

In December 2007, the Company completed the EMS sale with an affiliate of STT Communications for cash gross proceeds of $1,657,000 (see Note 4, EMS Sale). Additionally, the Company also agreed to provide services to the buyer priced at fair value subsequent to the completion of EMS Sale.

14. Segment Information

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

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EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company s geographic regions have similar economic characteristics and maintain similar sales forces, each of which offers all of the Company s services due to the similar nature of such services. In addition, the geographic regions utilize similar means for delivering the Company s services and have similarity in the types of customers.

While the Company believes it operates in one reporting segment, the Company nonetheless provides the following geographic disclosures as follows for the years ended December 31 (in thousands):

	2007	2006	2005
Total revenues:			
United States	$ 324,878	$ 246,066	$ 191,390
Asia-Pacific	57,074	40,849	29,667
Europe	37,490		
	$ 419,442	$ 286,915	$ 221,057
Total depreciation and amortization:			
United States	$ 80,758	$ 68,786	$ 58,820
Asia-Pacific	9,509	3,732	3,860
Europe	9,813		
	$ 100,080	$ 72,518	$ 62,680
Income (loss) from operations:			
United States	$ 11,533	$ 76	$ (35,448)
Asia-Pacific	2,616	1,838	(1,325)
Europe	(4,034)		
	$ 10,115	$ 1,914	$ (36,773)
Capital expenditures:			
United States	$ 459,762	$ 156,114	$ 130,946
Asia-Pacific	42,332	15,943	2,973
Europe [1]	577,039		
	$ 1,079,133	$ 172,057	$ 133,919

[1] Includes the purchase price for the IXEurope Acquisition (see Note 2), net of cash acquired, totaling $541,792,000.

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

	2007	2006
United States	$ 959,637	$ 553,619
Asia-Pacific	91,478	51,952

Europe	703,992	
	$ 1,755,107	$ 605,571

The Company s goodwill totaling $442,926,000 as of December 31, 2007 was comprised of $424,916,000 attributable to the Company s Europe reporting unit and $18,010,000 attributable to the Company s Asia-Pacific reporting unit.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company s goodwill totaling $16,919,000 as of December 31, 2006 is part of the Company s Asia-Pacific reporting unit.

Revenue information on a services basis is as follows (in thousands):

	2007	2006	2005
Colocation	$ 305,215	$ 201,772	$ 152,606
Interconnection	73,685	53,811	40,877
Managed infrastructure	19,519	16,197	14,208
Rental	1,237	1,380	312
Recurring revenues	399,656	273,160	208,003
Non-recurring revenues	19,786	13,755	13,054
	$ 419,442	$ 286,915	$ 221,057

15. Restructuring Charges

2004 Restructuring Charges

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

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

A summary of the movement in the 2004 accrued restructuring charges during the year ended December 31, 2007 is outlined as follows (in thousands):

	Accrued restructuring charge as of December 31, 2006	Accretion expense	Restructuring charge adjustment	Cash payments	Accrued restructuring charge as of December 31, 2007
Estimated lease exit costs	$ 13,857	$ 808	$ 407	$ (2,932)	$ 12,140
	13,857	$ 808	$ 407	$ (2,932)	12,140

Less current portion	(3,096)	(3,973)
	$ 10,761	$ 8,167

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the three months ended June 30, 2007, the Company recorded an additional restructuring charge of $407,000 as a result of revised sublease assumptions on one of these two excess space leases as new information became available.

A summary of the movement in the 2004 accrued restructuring charges during the year ended December 31, 2006 is outlined as follows (in thousands):

	Accrued restructuring charge as of December 31, 2005	Accretion expense	Restructuring charge adjustment	Cash payments	Accrued restructuring charge as of December 31, 2006
Estimated lease exit costs	$ 13,702	$ 815	$ 1,527	$ (2,187)	$ 13,857
	13,702	$ 815	$ 1,527	$ (2,187)	13,857
Less current portion	(2,171)				(3,096)
	$ 11,531				$ 10,761

In September 2006, the Company recorded an additional restructuring charge of $1,527,000 as a result of revised sublease assumptions on these two excess space leases as new information became available.

As the Company currently has no plans to enter into lump sum lease terminations with either of the landlords associated with these two excess space leases, the Company has reflected its accrued restructuring liability as both current and non-current on the accompanying condensed consolidated balance sheets as of December 31, 2007 and 2006. The Company is contractually committed to these two excess space leases through 2015.

The Company s minimum future payments associated with these two excess space leases is as follows (in thousands):

2008	$ 3,973
2009	4,025
2010	4,094
2011	4,224
2012	4,472
2013 and thereafter	11,524
	32,312
Less amount representing estimated subrental income and expense	(17,599)
	14,713
Less amount representing accretion	(2,573)
	12,140
Less current portion	(3,973)

	$ 8,167

2005 Restructuring Charges

In October 2005, in light of the availability of fully or partially built-out data centers in the Silicon Valley, including the possibility of expansion among some of the four IBX centers the Company currently has in the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Silicon Valley, the Company made the decision that retaining the approximately 40 acre San Jose Ground Lease for future expansion was no longer economical. In conjunction with this decision, the Company entered into an agreement with the landlord of this property for the early termination of the San Jose Ground Lease property whereby the Company will pay $40,000,000 over the next four years plus property taxes, commencing January 1, 2006, to terminate this lease, which would otherwise require significantly higher cumulative lease payments through 2020 (see Note 12) (the San Jose Ground Lease Termination). As a result of the San Jose Ground Lease Termination, the Company recorded a $33,814,000 restructuring charge in the fourth quarter of 2005, which represents the present value of the Company s estimated future cash payments to exit this property, as well as the write-off of all remaining property and equipment attributed to the development of this property.

The Company estimated the future cash payments required to exit the San Jose Ground Lease, net of any estimated subrental income and expense, through the remainder of the lease term and then calculated the present value of such future cash flows in order to determine the appropriate restructuring charge to record. Subsequent to recording the initial restructuring charge, the Company records accretion expense to accrete its accrued restructuring liability up to an amount equal to the total estimated future cash payments necessary to complete the exit of the San Jose Ground Lease.

A summary of the 2005 restructuring charges during the year ended December 31, 2007 is outlined as follows (in thousands):

	Accrued restructuring charge as of December 31, 2006	Accretion expense	Cash payments	Reclass to other note payable	Accrued restructuring charge as of December 31, 2007
Estimated lease exit costs	$ 27,715	$ 1,682	$ (10,736)	$ (18,661)	$
	27,715	$ 1,682	$ (10,736)	$ (18,661)	
Less current portion	(10,373)				
	$ 17,342				$

The Company s use of this property terminated on December 31, 2007 and the Company issued a promissory note to the landlord representing the last two years of payments due. As a result, the Company reclassified the remaining balance of $18,661,000 of accrued restructuring liability to other note payable in December 2007 (see Note 7, Other Note Payable).

A summary of the 2005 restructuring charges during the year ended December 31, 2006 is outlined as follows (in thousands):

	Accrued restructuring charge as of December 31, 2005	Accretion expense	Cash payments	Accrued restructuring charge as of December 31, 2006
Estimated lease exit costs	$ 36,129	$ 2,203	$ (10,617)	$ 27,715
	36,129	$ 2,203	$ (10,617)	27,715
Less current portion	(10,229)			(10,373)

$	25,900	$	17,342

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. Subsequent Events

On January 1, 2008, pursuant to the provisions of the Company s equity compensation plans (see Note 10), the number of common shares in reserve automatically increased by 2,193,674 shares for the 2000 Equity Incentive Plan, 500,000 shares for the 2004 Purchase Plans and 50,000 shares for the 2000 Director Option Plan.

In January 2008, the Company entered into a long-term lease for a new building located on the same campus as its existing Sydney IBX center and at the same time terminated the existing lease for the Company s original Sydney IBX center by incorporating it into the new lease and extended the original lease term for an additional seven years in a single, revised lease agreement for both buildings. Minimum payments under this lease, incremental to the previous lease, totaled 12,200,000 Australian dollars (approximately $10,700,000 as translated using effective exchange rates at December 31, 2007) in cumulative lease payments with monthly payments that commenced in January 2008.

In January 2008, the Asia-Pacific Financing (see Note 7) was amended to allow another wholly-owned subsidiary of the Company, located in Sydney, Australia, to borrow up to 32,000,000 Australian dollars. This amendment increased the Asia-Pacific Financing to approximately $68,000,000. Borrowings by the Company s subsidiary in Australia will generally be made under the same terms as the borrowings by the subsidiaries in Singapore and Tokyo, Japan, and will be used for the Company s IBX expansion plans in Sydney.

In January and February 2008, the Company received additional advances related to the European Financing (see Note 7) totaling 7,637,000 British pounds or approximately $15,176,000, bringing the cumulative loan payable to date to 49,682,000 British pounds or approximately $98,728,000 with a blended interest rate of 7.39% per annum. As a result, the amount available to borrow from the European financing totals 32,318,000 British pounds or approximately $64,222,000.

In January 2008, the Compensation Committee of the Board of Directors also approved the issuance of an aggregate of 123,000 shares of restricted stock units to executive officers pursuant to the 2000 Equity Incentive Plan. In addition, in February 2008, the Stock Award Committee of the Board of Directors approved the issuance of 308,392 restricted stock units to certain employees, excluding executive officers, as part of the Company s annual refresh program. All awards are subject to vesting provisions. All such equity awards will be accounted for under the provisions of SFAS No. 123(R), Share-Based Payment, and related pronouncements, which will have a significant impact to the Company.

In February 2008, the Company received additional advances related to the Chicago IBX Financing (see Note 7) totaling $1,662,000, bringing the cumulative Loan Payable to date to $107,275,000 with a blended interest rate of 6.08% per annum. As a result, the amount available to borrow from the Chicago IBX Financing totals $2,725,000.

In February 2008, a wholly-owned subsidiary of the Company acquired Virtu Secure Webservices B.V. (Virtu), a provider of network-neutral data center services in the Netherlands, for a cash payment of 15,000,000 Euros or $22,915,000, excluding closing costs (the Virtu Acquisition). Under the terms of the Virtu Acquisition, the Company may also pay some additional future contingent consideration, which will be payable in the form of up to 20,000 shares of the Company s common stock and cash of up to 1,500,000 euros, contingent upon meeting certain pre-determined future annual operating targets for 2008 to 2011. Virtu, a similar business to that of the Company, operates data centers in the Netherlands, supplementing the Company s existing European operations recently acquired as a result of the IXEurope Acquisition (see Note 2). The combined company will operate under the Equinix name and the current Virtu management team will join the Company s existing European management team in running the Company s operations in the Netherlands. The Virtu

EQUINIX, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Acquisition will be accounted for using the purchase method of accounting in accordance with SFAS 141. The Company plans to incur additional capital expenditures to complete the build-out of the IBX center in Amsterdam currently under construction by Virtu.

17. Quarterly Financial Information (Unaudited)

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

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

The following table presents selected quarterly information for fiscal 2007 and 2006:

	First quarter	Second quarter	Third quarter	Fourth quarter
	(in thousands, except per share data)			
2007:				
Revenues	$ 85,109	$ 91,837	$ 103,782	$ 138,714
Net income (loss)	(4,456)	1,217	4,124	(6,073)[(a)]
Basic net income (loss) per share	(0.15)	0.04	0.13	(0.17)
Diluted net income (loss) per share	(0.15)	0.04	0.12	(0.17)
2006:				
Revenues	$ 64,869	$ 68,548	$ 73,726	$ 79,772
Net income (loss) before cumulative effect of a change in accounting principle	(5,446)	(5,270)	(5,168)	9,111[(b)]
Net income (loss)	(5,070)	(5,270)	(5,168)	9,111[(b)]
Basic net income (loss) per share:				
Before cumulative effect of a change in accounting principle	(0.19)	(0.19)	(0.18)	0.31
After cumulative effect of a change in accounting principle	(0.18)	(0.19)	(0.18)	0.31
Diluted net income (loss) per share:				
Before cumulative effect of a change in accounting principle	(0.19)	(0.19)	(0.18)	0.30
After cumulative effect of a change in accounting principle	(0.18)	(0.19)	(0.18)	0.30

(a) Represents first full quarter of combined results since the IXEurope Acquisition (see Note 2).
(b) Includes a $9,647,000 gain on Honolulu IBX Sale (see Note 4).