

STORAGENETWORKS INC  
Form 10-Q  
November 13, 2001

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2001.

OR

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

**Commission file number: 0-30905**

**STORAGENETWORKS, INC.**  
**(Exact name of registrant as specified in its charter)**

**Delaware**  
(State or other jurisdiction of  
Incorporation or organization)

**04-3436145**  
(I.R.S. Employer  
Identification Number)

225 Wyman Street  
Waltham, MA 02451  
(781) 622-6700

(Address, Including Zip Code, and Telephone Number, Including Area Code,  
of Registrant's Principal Executive Offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

The number of shares outstanding of the registrant's Common Stock as of November 5, 2001: 97,281,629 shares.

**StorageNetworks, Inc.**  
**Form 10-Q**  
**For the Quarterly Period Ended September 30, 2001**  
**Table of Contents**

	<b>Page</b>
<b>PART I. Financial Information</b>	
Item 1. <u>Condensed Consolidated Financial Statements (Unaudited)</u>	1
<u>Condensed Consolidated Balance Sheets as of December 31, 2000 and September 30, 2001</u>	1
<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2000 and 2001</u>	2

Edgar Filing: STORAGENETWORKS INC - Form 10-Q

<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2000 and 2001</u>	3
--	---

<u>Notes to Condensed Consolidated Financial Statements</u>	4
---	---

Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	5
--	---

Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	13
---	----

**PART II. Other Information**

Item 1. <u>Legal Proceedings</u>	13
----------------------------------	----

Item 2. <u>Changes in Securities and Use of Proceeds</u>	14
--	----

Item 5. <u>Other Information</u>	14
----------------------------------	----

Item 6. <u>Exhibits and Reports on Form 8-K</u>	14
---	----

<u>Signatures</u>	15
-------------------	----

**PART I FINANCIAL INFORMATION**

**ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**StorageNetworks, Inc.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(in thousands)**

	<u>December 31, 2000</u>	<u>September 30, 2001</u>
	(Note 1)	(Unaudited)
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 304,861	\$ 215,510
Short-term investments	84,767	77,827
Accounts receivable, net	7,886	19,293
Prepaid expenses and other current assets	10,044	14,083
<hr/>		
Total current assets	407,558	326,713
Property and equipment, net	135,867	152,761
Restricted cash equivalents	32,133	32,781
Rights to use fiber optic capacity	7,595	9,220
Other assets	19,460	18,510
<hr/>		
Total assets	\$ 602,613	\$ 539,985
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,746	\$ 7,385

Edgar Filing: STORAGENETWORKS INC - Form 10-Q

Accrued expenses	23,134	31,673
Deferred revenue	5,938	9,297
Capital lease obligations	36,617	51,309
<hr/>		
Total current liabilities	69,435	99,664
Capital lease obligations, less current portion	94,050	88,681
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock	954	971
Treasury stock		(200)
Additional paid-in capital	601,649	599,456
Deferred stock compensation	(13,754)	(7,606)
Accumulated other comprehensive income	(406)	395
Accumulated deficit	(149,315)	(241,376)
<hr/>		
Total stockholders' equity	439,128	351,640
<hr/>		
Total liabilities and stockholders' equity	\$ 602,613	\$ 539,985
<hr/>		

See notes to condensed consolidated financial statements.

1

**StorageNetworks, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)  
(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	2001	2000	2001
<b>REVENUES:</b>				
Managed storage services revenues	\$ 9,483	\$ 29,788	\$ 14,463	\$ 82,655
Professional services revenues	4,837	1,752	12,515	9,392
<hr/>				
Total revenues	14,320	31,540	26,978	92,047
<b>COSTS AND EXPENSES:</b>				
Cost of managed storage services revenues, excluding deferred stock compensation amortization amounts	21,916	29,482	48,712	91,781
Cost of professional services revenues, excluding deferred stock compensation amortization amounts	4,987	1,034	14,953	6,015

Edgar Filing: STORAGENETWORKS INC - Form 10-Q

Sales and marketing, excluding deferred stock compensation amortization amounts	14,756	12,004	35,505	48,797
General and administrative, excluding deferred stock compensation amortization amounts	4,983	7,691	12,741	18,951
Research and development, excluding deferred stock compensation amortization amounts	3,174	6,309	7,697	17,189
Amortization of deferred stock compensation*	1,256	870	3,833	3,218
<hr/>				
Total costs and expenses	51,072	57,390	123,441	185,951
Loss from operations	(36,752)	(25,850)	(96,463)	(93,904)
Interest income	5,682	3,191	9,435	12,944
Interest expense	(2,422)	(4,081)	(4,797)	(10,845)
Other		(256)		(256)
<hr/>				
Net loss	\$ (33,492)	\$ (26,996)	\$ (91,825)	\$ (92,061)
<hr/>				
Net loss per share basic and diluted	\$ (0.37)	\$ (0.28)	\$ (1.94)	\$ (0.95)
Weighted average common shares outstanding	90,890	96,723	47,422	96,421
*Amortization of deferred stock compensation				
Cost of managed storage services revenues	\$ 89	\$ 100	\$ 372	\$ 422
Cost of professional services revenues	115	48	415	159
Sales and marketing	440	158	1,231	945
General and administrative	104	99	475	301
Research and development	508	465	1,340	1,391
<hr/>				
	\$ 1,256	\$ 870	\$ 3,833	\$ 3,218
<hr/>				

See notes to condensed consolidated financial statements.

2

**StorageNetworks, Inc.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(in thousands)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2000</b>	<b>2001</b>
<hr/>		
Net cash used in operating activities	\$ (69,874)	\$ (48,177)
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment	(21,699)	(18,940)
Purchases of short term investments	(225,420)	(188,250)

Edgar Filing: STORAGENETWORKS INC - Form 10-Q

Proceeds from maturities of short term investments	208,576	195,938
Purchase of restricted cash equivalents	(9,018)	(648)
Purchases of long term investments		(2,000)
<hr/>		
Net cash used in investing activities	(47,561)	(13,900)
 <b>FINANCING ACTIVITIES:</b>		
Proceeds from issuance of common stock	259,888	
Proceeds from exercise of stock options	1,142	1,414
Proceeds from issuance of preferred stock, net	143,000	
Acquisition of treasury stock		(200)
Offering costs	(1,332)	(659)
Payments of capital lease obligations	(11,307)	(28,671)
<hr/>		
Net cash provided by (used in) financing activities	391,391	(28,116)
<hr/>		
Net increase (decrease) in cash and cash equivalents	273,956	(90,193)
Effect of exchange rate changes on cash	117	842
Cash and cash equivalents at beginning of period	13	304,861
<hr/>		
Cash and cash equivalents at end of period	\$ 274,086	\$ 215,510
<hr/>		

See notes to condensed consolidated financial statements.

3

**StorageNetworks, Inc.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of StorageNetworks, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto for the year ended December 31, 2000 included in the Company's annual report on Form 10-K filed with the Securities and Exchange Commission on March 23, 2001.

**2. Revenue Recognition**

## Edgar Filing: STORAGENETWORKS INC - Form 10-Q

Revenues consist of (i) service fees and installation fees from customer use of the Company's managed storage services, which include the Company's PACS storage services, STORmanage storage services and STORfusion storage services and (ii) professional services fees. Revenues are recognized in accordance with the guidance of Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements", when all of the following conditions are met: persuasive evidence of an agreement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable and collection is reasonably assured. Revenues from service fees from managed storage services are recognized as the service levels are provided. Revenues from managed storage services installation fees are recognized on a straight-line basis over the term of the contract. Revenues from time and materials professional service engagements are recognized as the services are provided. Revenues from fixed-priced professional services contracts are recognized using the percentage of completion method of accounting and are adjusted monthly for the cumulative impact of any revision in estimates. The Company determines the percentage of completion of its contracts by comparing costs incurred to date to total estimated costs. Contract costs include all direct labor and expenses related to the contract performance.

### 3. Property and Equipment

Property and equipment consist of the following (in thousands):

	<b>December 31, 2000</b>	<b>September 30, 2001</b>
Managed storage services related equipment	\$ 146,367	\$ 188,280
Furniture, fixtures, computer and other equipment	7,843	8,386
Leasehold improvements	2,377	10,864
Purchased software	4,796	8,721
	161,383	216,251
Less accumulated depreciation and amortization	(25,516)	(63,490)