

STORAGENETWORKS INC
Form 10-Q
November 13, 2002
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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, 2002.

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 7, 2002: 98,954,267 shares.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements****STORAGENETWORKS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**
(in thousands)

	December 31, 2001	September 30, 2002
	(Note 1)	(Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 185,834	\$ 58,798
Short-term investments	42,978	94,513
Accounts receivable, net	13,735	7,669
Prepaid expenses and other current assets	9,407	7,289
	<u>251,954</u>	<u>168,269</u>
Total current assets	251,954	168,269
Property and equipment, net	67,074	45,751
Non-current investments	29,937	49,267
Restricted cash equivalents	30,158	24,683
Other assets	5,618	2,057
	<u>384,741</u>	<u>290,027</u>
Total assets	\$ 384,741	\$ 290,027
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,821	\$ 2,266
Accrued expenses	50,259	31,886
Deferred revenue	5,868	7,857
Capital lease obligations	44,063	27,610
	<u>104,011</u>	<u>69,619</u>
Total current liabilities	104,011	69,619
Capital lease obligations, less current portion	60,512	13,093
STOCKHOLDERS EQUITY:		
Common stock	978	988
Treasury stock	(200)	(200)
Additional paid-in capital	597,938	596,923
Deferred stock compensation	(4,638)	(1,013)
Accumulated other comprehensive income	428	876
Accumulated deficit	(374,288)	(390,259)
	<u>220,218</u>	<u>207,315</u>
Total stockholders equity	220,218	207,315
	<u>384,741</u>	<u>290,027</u>
Total liabilities and stockholders equity	\$ 384,741	\$ 290,027

See notes to condensed consolidated financial statements.

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2002	2001	2002
REVENUES:				
Managed storage services revenues	\$ 29,788	\$ 21,403	\$ 82,655	\$ 74,460
User license fees				328
Professional services revenues	1,752	632	9,392	2,623
Total revenues	31,540	22,035	92,047	77,411
COSTS AND EXPENSES:				
Cost of managed storage services revenues, excluding deferred stock compensation amortization amounts	29,482	13,697	91,781	48,819
Cost of professional services revenues, excluding deferred stock compensation amortization amounts	1,034	734	6,015	1,970
Sales and marketing, excluding deferred compensation amortization amounts	12,004	3,963	48,797	14,710
General and administrative, excluding deferred compensation amortization amounts	7,691	4,000	18,951	11,643
Research and development, excluding deferred compensation amortization amounts	6,309	3,654	17,189	11,952
Amortization of deferred stock compensation*	870	223	3,218	1,049
Total costs and expenses	57,390	26,271	185,951	90,143
Loss from operations	(25,850)	(4,236)	(93,904)	(12,732)
Interest income	3,191	1,351	12,944	4,660
Interest expense	(4,081)	(2,154)	(10,845)	(7,899)
Other expense	(256)		(256)	
Net loss	\$ (26,996)	\$ (5,039)	\$ (92,061)	\$ (15,971)
Net loss per share basic and diluted	\$ (0.28)	\$ (0.05)	\$ (0.95)	\$ (0.16)
Weighted average common shares outstanding	96,723	98,663	96,421	98,410
*Amortization of deferred stock compensation consists of the following:				
Cost of managed storage services revenues	\$ 100	\$ 35	\$ 422	149
Cost of professional services revenues	48	12	159	91
Sales and marketing	158	76	945	404
General and administrative	99	95	301	283
Research and development	465	5	1,391	122
	\$ 870	\$ 223	\$ 3,218	1,049

See notes to condensed consolidated financial statements.

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STORAGENETWORKS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Nine Months Ended September 30,	
	2001	2002
Net cash (used in) provided by operating activities	\$ (48,177)	\$ 4,653
INVESTING ACTIVITIES:		
Purchases of property and equipment	(18,940)	(4,353)
Purchases of short term and non-current investments	(188,250)	(177,524)
Proceeds from maturities of short term investments	195,938	106,658
(Purchases of) proceeds from maturities of restricted cash equivalents	(648)	5,475
Purchases of long term investments	(2,000)	
Net cash used in investing activities	(13,900)	(69,744)
FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	1,414	1,581
Acquisition of treasury stock	(200)	
Offering costs	(659)	
Payments of capital lease obligations	(28,671)	(63,954)
Net cash used in financing activities	(28,116)	(62,373)