Digital Realty Trust, Inc.
Form 10-Q
November 09, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2007

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Transition Period From __________ to __________.

Commission file number 001-32336

DIGITAL REALTY TRUST, INC.

(Exact name of registrant as specified in its charter)

Maryland	**26-0081711**
(State or other jurisdiction of incorporation or organization)	**(IRS employer identification number)**
560 Mission Street, Suite 2900 San Francisco, CA	**94105**
(Address of principal executive offices)	**(Zip Code)**

(415) 738-6500

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x Accelerated filer ¨ Non- accelerated filer ¨

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	**Outstanding at October 31, 2007**
Common Stock, $.01 par value per share	64,758,872

DIGITAL REALTY TRUST, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS

Table of Contents

DIGITAL REALTY TRUST, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2007 (unaudited)	December 31, 2006
ASSETS		
Investments in real estate:		
Properties:		
Land	$ 288,784	$ 228,728
Acquired ground leases	1,595	3,028
Buildings and improvements	1,741,901	1,415,236
Tenant improvements	190,015	172,334
Total investments in properties	2,222,295	1,819,326
Accumulated depreciation and amortization	(164,100)	(112,479)
Net investments in properties	2,058,195	1,706,847
Investment in unconsolidated joint venture	9,591	29,955
Net investments in real estate	2,067,786	1,736,802
Cash and cash equivalents	49,182	22,261
Accounts and other receivables, net of allowance for doubtful accounts of $2,434 and $2,032 as of September 30, 2007 and December 31, 2006, respectively	30,322	31,293
Deferred rent	57,317	40,225
Acquired above market leases, net	40,254	47,292
Acquired in place lease value and deferred leasing costs, net	255,265	248,751
Deferred financing costs, net	18,319	17,500
Restricted cash	38,716	28,144
Other assets	18,958	13,951
Total Assets	$ 2,576,119	$ 2,186,219
LIABILITIES AND STOCKHOLDERS EQUITY		
Unsecured revolving credit facility	$ 266,726	$ 145,452
Mortgage loans	895,882	804,686
Exchangeable senior debentures	172,500	172,500
Accounts payable and other accrued liabilities	104,795	88,698
Accrued dividends and distributions	24,824	19,386
Acquired below market leases, net	95,485	87,487
Security deposits and prepaid rents	20,574	19,822
Total liabilities	1,580,786	1,338,031
Commitments and contingencies		
Minority interests in consolidated joint venture	2,902	
Minority interests in operating partnership	71,063	138,416
Stockholders equity:		
Preferred Stock: $0.01 par value, 20,000,000 authorized:		
Series A Cumulative Redeemable Preferred Stock, 8.50%, $103,500,000 liquidation preference ($25.00 per share), 4,140,000 issued and outstanding	99,297	99,297
	60,502	60,502

Series B Cumulative Redeemable Preferred Stock, 7.875%, $63,250,000 liquidation preference ($25.00 per share), 2,530,000 issued and outstanding		
Series C Cumulative Convertible Preferred Stock, 4.375%, $175,000,000 liquidation preference ($25.00 per share), 7,000,000 issued and outstanding	168,955	
Common Stock; $0.01 par value: 100,000,000 authorized, 60,721,750 and 54,257,691 shares issued and outstanding as of September 30, 2007 and December 31, 2006	607	542
Additional paid-in capital	666,023	597,334
Dividends in excess of earnings	(83,069)	(52,093)
Accumulated other comprehensive income, net	9,053	4,190
Total stockholders equity	921,368	709,772
Total liabilities and stockholders equity	$ 2,576,119	$ 2,186,219

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited in thousands, except share data)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating Revenues:				
Rental	$ 82,536	$ 57,394	$ 234,529	$ 153,044
Tenant reimbursements	22,104	13,279	54,414	36,819
Other	154		401	168
Total operating revenues	104,794	70,673	289,344	190,031
Operating Expenses:				
Rental property operating and maintenance	30,539	14,972	75,643	39,491
Property taxes	7,859	6,956	22,741	20,378
Insurance	1,356	934	4,201	2,856
Depreciation and amortization	35,345	23,767	96,576	58,838
General and administrative	7,775	4,986	23,441	13,906
Other	495	607	811	938
Total operating expenses	83,369	52,222	223,413	136,407
Operating income	21,425	18,451	65,931	53,624
Other Income (Expenses):				
Equity in earnings of (loss from) unconsolidated joint venture	(237)		524	
Interest and other income	621	364	1,666	854
Interest expense	(16,683)	(13,792)	(48,541)	(35,493)
Loss from early extinguishment of debt		(40)		(522)
Income from continuing operations before minority interests	5,126	4,983	19,580	18,463
Minority interests in continuing operations of operating partnership	25	(657)	(781)	(3,908)
Income from continuing operations	5,151	4,326	18,799	14,555
Income (loss) from discontinued operations before gain on sale of assets and minority interests	(18)	250	1,395	138
Gain on sale of assets		18,016	18,049	18,016
Minority interests attributable to discontinued operations	2	(7,805)	(3,264)	(7,740)
Income (loss) from discontinued operations	(16)	10,461	16,180	10,414
Net income	5,135	14,787	34,979	24,969
Preferred stock dividends	(5,359)	(3,445)	(13,971)	(10,335)
Net income (loss) available to common stockholders	$ (224)	$ 11,342	$ 21,008	$ 14,634
Income (loss) per share from continuing operations available to common stockholders:				
Basic	$	$ 0.02	$ 0.08	$ 0.13
Diluted	$	$ 0.02	$ 0.08	$ 0.13

Income per share from discontinued operations:				
Basic	$	$ 0.29	$ 0.27	$ 0.32
Diluted	$	$ 0.28	$ 0.26	$ 0.30
Net income (loss) per share available to common stockholders:				
Basic	$	$ 0.31	$ 0.35	$ 0.45
Diluted	$	$ 0.30	$ 0.34	$ 0.43
Weighted average common shares outstanding:				
Basic	60,717,153	36,114,253	59,324,104	32,361,456
Diluted	60,717,153	37,446,893	61,365,281	33,684,081

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited in thousands)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net income	$ 5,135	$ 14,787	$ 34,979	$ 24,969
Other comprehensive income:				
Foreign currency translation adjustments	4,017	121	5,310	3,397
Minority interests in foreign currency translation adjustments	(430)	(52)	(630)	(1,569)
Increase (decrease) in fair value of interest rate swaps	(1,893)	(1,721)	2,268	544
Minority interests in decrease (increase) in fair value of interest rate swaps	203	735	(280)	(382)
Reclassification of other comprehensive income to earnings	(420)	(716)	(2,115)	(1,781)
Minority interests in reclassification of other comprehensive income to earnings	45	306	310	819
Comprehensive income	$ 6,657	$ 13,460	$ 39,842	$ 25,997

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

DIGITAL REALTY TRUST, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited in thousands)

	Nine Months Ended	
	September 30, 2007	September 30, 2006
Cash flows from operating activities (including discontinued operations):		
Net income	$ 34,979	$ 24,969
Adjustments to reconcile net income to net cash provided by operating activities		
Gain on sale of assets	(18,049)	(18,016)
Minority interests in operating partnership and discontinued operations	4,045	11,648
Equity in earnings of unconsolidated joint venture	(524)	
Distributions representing return on investment in unconsolidated joint venture	388	
Write-off of net assets due to early lease terminations	395	450
Depreciation and amortization of buildings and improvements, tenant improvements and acquired ground leases, including amounts for discontinued operations	57,238	35,665
Amortization over the vesting period of the fair value of share-based compensation	2,938	1,296
Allowance for doubtful accounts	402	1,154
Amortization of deferred financing costs	4,266	2,618
Write-off of deferred financing costs, included in net loss on early extinguishment of debt		106
Amortization of debt premium	(172)	(172)
Amortization of acquired in place lease value and deferred leasing costs	39,717	27,132
Amortization of acquired above market leases and acquired below market leases, net	(7,649)	(5,047)
Changes in assets and liabilities:		
Restricted cash	(10,572)	
Accounts and other receivables	(1,715)	(4,206)
Deferred rent	(17,576)	(9,291)
Deferred leasing costs	(9,024)	(5,428)
Other assets	2,242	(3,240)
Accounts payable and other accrued liabilities	(3,915)	(795)
Security deposits and prepaid rents	185	3,224
Net cash provided by operating activities (including discontinued operations)	77,599	62,067
Cash flows from investing activities:		
Acquisitions of properties	(276,018)	(348,216)
Proceeds from sale of assets, net of sales costs	78,191	58,923
Deposits paid for acquisitions of properties	(88)	(46,258)
Receipt of value added tax refund	6,067	3,121
Refundable value added tax paid	(6,707)	(795)
Change in restricted cash		(2,354)
Improvements to investments in real estate	(164,680)	(52,326)
Other deposits		(911)
Tenant improvement advances to tenants	(21,507)	(26,152)
Collection of advances to tenants for tenant improvements	24,805	20,000
Distribution representing return of investment in unconsolidated joint venture	20,500	
Purchase of joint venture partners interests	(3,684)	(5,353)
Net cash used in investing activities	(343,121)	(400,321)

Table of Contents

DIGITAL REALTY TRUST, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited in thousands)

	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Cash flows from financing activities:		
Borrowings on unsecured revolving credit facility	$ 413,314	$ 492,739
Repayments on unsecured revolving credit facility	(294,000)	(440,000)
Proceeds from mortgage loans	121,288	211,872
Principal payments on mortgage loans	(45,947)	(112,745)
Proceeds from exchangeable senior debentures		172,500
Settlement of foreign currency forward sale contract		694
Payment of loan fees and costs	(5,189)	(11,431)
Refund of rate-lock deposit		1,200
Gross proceeds from the sale of common stock		97,600
Gross proceeds from the sale of preferred stock	175,000	
Common stock offering costs paid		(3,632)
Preferred stock offering costs paid	(5,625)	
Proceeds from exercise of stock options	500	1,057
Payment of dividends to preferred stockholders	(8,612)	(6,890)
Payment of dividends to common stockholders and distributions to limited partners of operating partnership	(58,286)	(47,990)
Net cash provided by financing activities	292,443	354,974
Net increase in cash and cash equivalents	26,921	16,720
Cash and cash equivalents at beginning of period	22,261	10,930
Cash and cash equivalents at end of period	$ 49,182	$ 27,650
Supplemental disclosure of cash flow information:		
Cash paid for interest, including amounts capitalized	$ 51,705	$ 36,400
Cash paid for taxes	380	102
Supplementary disclosure of noncash investing and financing activities:		
Change in net assets related to foreign currency translation adjustments	$ 5,310	$ 3,397
Accrual of dividends and distributions	24,824	20,052
Increase in other assets related to increase in fair value of interest rate swaps	2,268	544
Reclassification of owner s equity to minority interest in the Operating Partnership	420	(41,919)
Operating Partnership units redeemed for shares of common stock	65,241	53,842
Accrual for additions to investments in real estate and tenant improvement advances included in accounts payable and accrued expenses	29,032	17,548
Allocation of purchase of properties to:		
Investments in real estate	250,134	334,256
Accounts and other receivables	1,686	
Other assets	952	
Acquired above market leases	335	287
Acquired below market leases	(20,052)	(26,894)
Acquired in place lease value and deferred leasing costs	45,135	42,441
Mortgage loans assumed		
Accounts payable and other accrued liabilities	(1,925)	(1,874)
Security deposits and prepaid rents	(247)	

Cash paid for acquisition of properties	276,018	348,216
Accrual of common and preferred stock offering costs	420	200

See accompanying notes to the condensed financial statements.

DIGITAL REALTY TRUST, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2007 and 2006

(unaudited)

1. Organization and Description of Business

Digital Realty Trust, Inc. through its controlling interest in Digital Realty Trust, L.P. (the Operating Partnership) and the subsidiaries of the Operating Partnership (collectively, we or the Company) is engaged in the business of owning, acquiring, repositioning and managing technology-related real estate. The Company is focused on providing Turn-Key Datacenter and Powered Base Building datacenter solutions for domestic and international tenants across a variety of industry verticals ranging from information technology and internet enterprises, to manufacturing and financial services. As of September 30, 2007, our portfolio consists of 67 properties, excluding one property held as an investment in an unconsolidated joint venture; 58 are located throughout North America and nine are located in Europe. Our properties are diversified in major markets where corporate datacenter and technology tenants are concentrated, including the Chicago, Dallas, Los Angeles, New York, Northern Virginia, Phoenix, San Francisco and Silicon Valley metropolitan areas in the U.S. and the Amsterdam, Dublin, London and Paris markets in Europe. The portfolio consists of Internet gateway properties, datacenter properties, technology manufacturing properties and regional or national headquarters of technology companies.

We completed our initial public offering (IPO) on November 3, 2004 and commenced operations on that date. The Operating Partnership was formed on July 21, 2004 in anticipation of our IPO. As of September 30, 2007, we own an 89.3% common interest and a 100% preferred interest in the Operating Partnership. As general partner, we have control over the Operating Partnership. The limited partners of the Operating Partnership do not have rights to replace us as the general partner nor do they have participating rights, although they do have certain protective rights.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation and Basis of Presentation

The accompanying interim condensed consolidated financial statements include all of the accounts of Digital Realty Trust, Inc., the Operating Partnership and the subsidiaries of the Operating Partnership. Intercompany balances and transactions have been eliminated.

The accompanying interim condensed consolidated financial statements are unaudited, but have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and in compliance with the rules and regulations of the United States Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation have been included. All such adjustments are considered to be of a normal recurring nature. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for the full fiscal year. These condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in our annual report on Form 10-K for the year ended December 31, 2006.

(b) Cash Equivalents

For purpose of the condensed consolidated statements of cash flows, we consider short-term investments with original maturities of 90 days or less when purchased to be cash equivalents. As of September 30, 2007 and December 31, 2006, cash equivalents consist of investments in money market funds.

(c) Share Based Compensation

We account for share based compensation, including stock options, restricted stock, long-term incentive units and Class C profits interest units of the Operating Partnership (Class C Units) granted using the fair value method of accounting. The estimated fair value of each of the initial long-term incentive units granted in connection with our IPO was equal to the IPO price of our stock and such amount was recorded as an expense upon closing of the IPO since those long-term incentive units were fully vested as of the grant date. The estimated fair value of the stock options, restricted stock and long-term incentive units granted by us is being amortized to expense over the vesting period of the awards. The estimated fair value of the Class C Units (discussed in note 10) is being amortized over the expected service period of five years.

(d) Income Taxes

We have elected to be treated and believe that we have operated in a manner that has enabled us to qualify as a Real Estate Investment Trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). As a REIT, we generally are not required to pay federal corporate income and excise taxes on our taxable income to the extent it is currently distributed to our stockholders.

However, qualification and taxation as a REIT depends upon our ability to meet the various qualification tests imposed under the Code including tests related to annual operating results, asset composition, distribution levels and diversity of stock ownership. Accordingly, no assurance can be given that we will be organized or be able to operate in a manner so as to qualify or remain qualified as a REIT. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

Even if we qualify for taxation as a REIT, we are taxed in certain states in which we operate. Our consolidated taxable REIT subsidiaries are subject to both federal and state income taxes to the extent there is taxable income. We are also taxed in foreign countries where we operate that do not recognize REITs under their respective tax laws. Accordingly, we recognize and accrue income taxes for taxable REIT subsidiaries, certain states and foreign jurisdictions, as appropriate.

(e) Presentation of Transactional-based Taxes

In accordance with the provisions of Emerging Issues Task Force Issue No. 06-3 (EITF 06-3), *How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)*, we account for such taxes on a net basis.

(f) Asset Retirement Obligations

We record accruals for estimated retirement obligations, as required by Statement of Financial Accounting Standards (SFAS) No. 143, Accounting for Asset Retirement Obligations and Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations . The amount of asset retirement obligations relates primarily to estimated asbestos removal costs at the end of the economic life of properties that were built before 1984. As of September 30, 2007 and December 31, 2006, the amount included in accounts payable and other accrued liabilities on our condensed consolidated balance sheets was approximately $1.2 million and $1.2 million, respectively, and the equivalent asset is recorded at $1.1 million, net of accumulated depreciation.

(g) Management s Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Table of Contents

3. Minority Interests in the Operating Partnership

Minority interests in the Operating Partnership relate to the interests that are not owned by us. The following table shows the ownership interest in the Operating Partnership as of September 30, 2007 and December 31, 2006:

	September 30, 2007		December 31, 2006	
	Common units and long term incentive units	Percentage of total	Common units and long term incentive units	Percentage of total
The Company	60,721,750	89.3%	54,257,691	79.9%
Minority interest consisting of:				
GI Partners			6,469,476	9.5
Third Parties	5,290,070	7.8	5,555,846	8.2
Employees (includes long term incentive units, see note 10)	1,991,359	2.9	1,630,142	2.4
	68,003,179	100.0%	67,913,155	100.0%

The following table shows activity for the Operating Partnership and long-term incentive units that are not owned by us for the nine months ended September 30, 2007:

	GI Partners	Third Parties	Employees	Total
As of January 1, 2007	6,469,476	5,555,846	1,630,142	13,655,464
Distributions of GI Partners founder Operating Partnership common units to its investors who redeemed units for our common stock (1)	(6,160,641)			(6,160,641)
Redemption of third party common Operating Partnership units for shares of our common stock (1)		(265,776)		(265,776)
Distributions of GI Partners founder Operating Partnership common units to its investors who are employees of the Company	(308,835)		308,835	
Redemption of common Operating Partnership units for shares of our common stock by an employee of the Company (1)			(6,002)	(6,002)
Conversion of long-term incentive units for shares of our common stock by an employee of the Company			(4,000)	(4,000)
Grant of long-term incentive units to employees			62,384	62,384
As of September 30, 2007		5,290,070	1,991,359	7,281,429

(1) This redemption was recorded as a reduction to minority interest and an increase to common stock and additional paid in capital based on the book value per unit in the accompanying condensed consolidated balance sheet.

Limited partners have the right to require the Operating Partnership to redeem part or all of their common units for cash based on the fair market value of an equivalent number of shares of our common stock at the time of the redemption. Alternatively, we may elect to acquire those common units in exchange for shares of our common stock on a one-for-one basis, subject to adjustment in the event of stock splits, stock dividends, issuance of stock rights, specified extraordinary distributions and similar events. We have filed a shelf registration statement covering the issuance of the shares of our common stock issuable upon redemption of the common units, and the resale of those shares of common stock by the holders. Under the terms of certain third parties (the exchange parties) contribution agreement signed in the third quarter of 2004, we have agreed to indemnify each exchange party against adverse tax consequences in the event the Operating Partnership directly or indirectly, sells, exchanges or otherwise disposes of (whether by way of merger, sale of assets or otherwise) in a taxable transaction any interest in 200 Paul Avenue 1-4 or 1100 Space Park Drive until the earlier of November 3, 2013 and the date on which these contributors hold less than 25% of the

Operating Partnership common units issued to them in the formation transactions consummated concurrently with the IPO. Under the exchange parties amended contribution agreement, the Operating Partnership has agreed to make approximately $17.8 million of indebtedness available for guaranty by the exchange parties until the earlier of November 3, 2013 and the date on which these contributors or certain transferees hold less than 25% of the Operating Partnership common units issued to them in the formation transactions consummated concurrently with the IPO, and we have agreed to indemnify each exchange party against adverse tax consequences if the Operating Partnership does not provide such indebtedness to guarantee.

Table of Contents

4. Properties Acquired During the Nine Months Ended September 30, 2007

We made the following acquisitions of real estate properties during the nine months ended September 30, 2007:

Property	Metropolitan Area	Date Acquired	Purchase Price (in millions)
21110 Ridgetop Circle	Northern Virginia	January 5, 2007	$ 17.2
3011 LaFayette Street	Silicon Valley	January 22, 2007	13.7
44470 Chilum Place	Northern Virginia	February 27, 2007	43.1
111 8th Avenue (1)	New York City	March 15, 2007	24.4
Devon Shafron Drive (2)	Northern Virginia	March 23, 2007	63.0
Mundells Roundabout (3)	London	April 11, 2007	31.4
900 Walnut Street (4)(5)	St. Louis	August 10, 2007	34.5
210 Tucker Boulevard (4)(5)	St. Louis	August 10, 2007	20.8
1 Savvis Parkway (5)	St. Louis	August 22, 2007	27.7
1500 Space Park Drive (6)	Silicon Valley	September 5, 2007	3.7
			$279.5

(1) Acquisition of an approximately 33,700 square foot leasehold interest.

(2) The purchase consists of three buildings: 43791 Devon Shafron Drive, 43831 Devon Shafron Drive and 43881 Devon Shafron Drive.

(3) A land parcel to be developed. Purchase price excludes refundable value added tax of approximately $5.2 million.

(4) Purchase price includes an earn-out payment made at closing: $0.5 million for 900 Walnut Street and $1.8 million for 210 N. Tucker Boulevard. In addition, a 3-month earn-out feature (expiring in November 2007) for new leases could allow the seller to earn an additional $0.7 million.

(5) Legal title currently held by a 1031 exchange accomodation titleholder, a single asset variable interest entity that we have consolidated under FIN 46R.

(6) Represents the amount we paid to acquire a 50% interest in a joint venture that owns this above building. Since we control the joint venture, we have consolidated the joint venture in the accompanying consolidated financial statements. Upon consolidation, we included total assets of $13.1 million, a third party loan of $5.5 million, other liabilities of $1.0 million and minority interest of $2.9 million.

The purchase price of these acquisitions have been allocated on a preliminary basis to the assets acquired and the liabilities assumed, if any. We expect to finalize our purchase price allocations no later than twelve months from the date of each acquisition.

5. Discontinued Operations

In 2007 and 2006, we sold the following properties:

Property	Date of Sale	Proceeds (in millions)	Gain on Sale (in millions)
4055 Valley View Lane	March 30, 2007	$ 33.0	$ 6.2
100 Technology Center Drive	March 20, 2007	45.5	11.8
7979 East Tufts Avenue	July 12, 2006	60.4	18.1

Table of Contents

The results of operations of the properties above are reported as discontinued operations for all periods presented in the accompanying condensed consolidated financial statements. The following table summarizes the income and expense components that comprise income (loss) from discontinued operations for the three and nine months ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Operating revenues	$ (1)	$ 2,823	$ 2,338	$ 10,817
Operating expenses	(17)	(1,840)	(1,281)	(8,087)
Interest and other income		9	5	18
Interest expense		(742)	(607)	(2,610)
Gain on derivative instruments			940	
	(18)	250	1,395	138
Gain on sale of assets		18,016	18,049	18,016
Minority interests attributable to discontinued operations	2	(7,805)	(3,264)	(7,740)
Income (loss) from discontinued operations	$ (16)	$ 10,461	$ 16,180	$ 10,414

Table of Contents

6. Debt

A summary of outstanding indebtedness as of September 30, 2007 and December 31, 2006, respectively, is as follows (in thousands):

Properties	**Interest Rate at September 30, 2007**	**Maturity Date**	**Principal Outstanding September 30, 2007**	**Principal Outstanding December 31, 2006**
Mortgage loans:				
Secured Term Debt (1)(2)	5.65%	Nov. 11, 2014	$ 149,292	$ 150,887
350 East Cermak Road (2)	1-month LIBOR + 2.20% (3)(4)	Jun. 9, 2008 (5)	98,344	99,353
200 Paul Avenue 1-4 (2)	5.74%	Oct. 8, 2015	81,000	81,000
2045 & 2055 LaFayette Street (2)	5.93%	Feb. 6, 2017	68,000	
600 West Seventh Street	5.80%	Mar. 15, 2016	58,325	59,181
2323 Bryan Street (2)(6)	6.04%	Nov. 6, 2009	56,026	56,579
34551 Ardenwood Boulevard 1-4 (2)	5.95%	Nov. 11, 2016	55,000	55,000
1100 Space Park Drive (2)	5.89%	Dec. 11, 2016	55,000	55,000
150 South First Street (2)	6.30%	Feb. 6, 2017	53,288	
2334 Lundy Place (2)	5.96%	Nov. 11, 2016	40,000	40,000
114 Rue Ambroise Croizat (7)	3-month EURIBOR + 1.35% (3)	Jan. 18, 2012	46,445(8)	43,260(8)
Unit 9, Blanchardstown Corporate Park (7)	3-month EURIBOR + 1.35% (3)	Jan. 18, 2012	39,931(8)	37,193(8)
6 Braham Street	3-month GBP LIBOR + 0.90% (3)	Apr. 10, 2011	27,024(9)	25,831(9)
4055 Valley View Lane	3-month LIBOR + 1.20% (3)	Jan. 1, 2009		20,610
100 Technology Center Drive	3-month LIBOR + 1.70% (3)	Apr. 1, 2009		20,000
Paul van Vlissingenstraat 16	3-month EURIBOR + 1.60% (3)	Jul. 18, 2013	15,679(8)	14,662(8)
Chemin de l Epinglier 2	3-month EURIBOR + 1.50% (3)	Jul. 18, 2013	11,386(8)	10,605(8)
Gyroscoopweg 2E-2F (10)	3-month EURIBOR + 1.50% (3)	Oct. 18, 2013	9,980(8)	9,332(8)
1125 Energy Park Drive	7.62% (11)	Mar. 1, 2032	9,486	9,569
375 Riverside Parkway	3-month LIBOR + 1.85% (3)	Dec. 1, 2008	8,617	8,775
731 East Trade Street	8.22%	Jul. 1, 2020	5,753	5,883
1500 Space Park Drive	1-month LIBOR + 2.75%	Apr. 5, 2008	5,511	
			894,087	802,720
Unsecured revolving credit facility	Various (12)	Aug. 31, 2010 (5)	266,726(13)	145,452(13)
Exchangeable senior debentures	4.13%	Aug. 15, 2026 (14)	172,500	172,500
3 Corporate Place construction loan	1-month LIBOR + 2.25%	Dec. 1, 2008	(15)	
Total principal outstanding			1,333,313	1,120,672
Loan premium 1125 Energy Park Drive and 731 East Trade Street mortgages			1,795	1,966
Total indebtedness			$ 1,335,108	$ 1,122,638

(1) This amount represents six mortgage loans secured by our interests in 36 NE 2nd Street, 3300 East Birch Street, 100 & 200 Quannapowitt Parkway, 300 Boulevard East, 4849 Alpha Road, and 11830 Webb Chapel Road. Each of these loans is cross-collateralized by the six properties

(2) The respective borrower s assets and credit are not available to satisfy the debts and other obligations of affiliates or any other person.

(3) We have entered into interest rate swap agreements as a cash flow hedge for interest generated by these LIBOR, EURIBOR and GBP LIBOR based loans. See note 11 for further information.

(4) This is the weighted average interest rate as of September 30, 2007. The first note, in a principal amount of $78.7 million, bears interest at a rate of 1-month LIBOR + 1.375% per annum and the second note, in a principal amount of $19.6 million, bears interest at a rate of 1-month LIBOR + 5.5% per annum

(5) Two one-year extensions are available, which we may exercise if certain conditions are met.

(6) This loan is also secured by a $5.0 million letter of credit.

(7) These loans are also secured by a 4.0 million letter of credit. These loans are cross-collateralized by the two properties.

(8) Based on exchange rate of $1.43 to 1.00 as of September 30, 2007 and $1.32 to 1.00 as of December 31, 2006.

(9) Based on exchange rate of $2.04 to £1.00 as of September 30, 2007 and $1.96 to £1.00 as of December 31, 2006.

(10) This loan is also secured by a 1.3 million letter of credit.

(11) If the loan is not repaid by March 1, 2012, the interest rate increases to the greater of 9.62% or the then treasury rate plus 2%.

(12) The interest rate under our unsecured revolving credit facility equals either (i) LIBOR, EURIBOR and GBP LIBOR (ranging from 1- to 6-month maturities) plus a margin of between 1.10% and 2.00% or (ii) the greater of (x) the base rate announced by the lender any (y) the federal funds rate, plus a margin of between 0.375%-0.750%. In each case, the margin is based on our total leverage ratio. We incur a fee ranging from 0.125% to 0.20% for the unused portion of our unsecured revolving credit facility

(13) Balances as of September 30, 2007 and December 31, 2006 are as follows (in thousands):

Denomination of Draw	Balance as of September 30, 2007	Weighted-average interest rate	Balance as of December 31, 2006	Weighted- average interest rate
US$	$ 179,500	6.70%	$ 111,000	6.85%
Euro	49,548	5.63%	34,452	5.04%
British Sterling	37,678	7.70%		
Total	$ 266,726	6.64%	$ 145,452	6.42%

Balances are based on exchange rates noted above in (8) and (9).

(14) The holders of the debentures have the right to require the Operating Partnership to repurchase the debentures in cash in whole or in part for a price of 100% of the principal amount plus accrued and unpaid interest on each of August 15, 2011, August 15,

(15) We are able to draw up to $70.0 million based on the satisfaction of certain lender requirements.

On August 31, 2007, we modified our unsecured revolving credit facility (the credit facility), pursuant to which the total capacity of the facility has been expanded from $500.0 million to $650.0 million and now matures in August 2010. As of September 30, 2007, approximately $266.7 million was drawn under this facility, and $11.3 million of letters of credit were issued. As of September 30, 2007 U.S. dollar denominated borrowings under the credit facility bore interest at a rate of 6.32%, which is based on 1-month LIBOR plus a margin ranging from 1.10% to 2.00%, depending on our Operating Partnership s total overall leverage. This margin was 1.20% as of September 30, 2007. As of September 30, 2007, Euro and British Pound Sterling borrowings under the credit facility bore interest at rates of 5.61% and 7.38%, respectively. The credit facility matures in August 2010, subject to two one-year extension options exerciseable by us and has a $325.0 million sub-facility for multicurrency advances in British Pound Sterling, Canadian Dollars, Euros, and Swiss Francs. The credit facility contains various restrictive covenants, including limitations on our ability to incur additional indebtedness, make certain investments or merge with another company, and requirements to maintain financial coverage ratios as well as a pool of unencumbered assets. In addition, except to enable us to maintain our status as a REIT for federal income tax purposes, we are not permitted during any four consecutive fiscal quarters to make distributions with respect to common stock or other equity interests in an aggregate amount in excess of 95% of Funds From Operations, as defined, for such period, subject to certain other adjustments. As of September 30, 2007, we were in compliance with all of the covenants.

Table of Contents

Some of the loans impose penalties upon prepayment. The terms of the following mortgage loans do not permit prepayment of the loan prior to the dates listed below:

Loan	Date
2323 Bryan Street	August 2009
200 Paul Avenue 1-4	November 2010
1125 Energy Park Drive	December 2011
Secured Term Debt	September 2014
2334 Lundy Place	August 2016
34551 Ardenwood Boulevard 1-4	August 2016
1100 Space Park Drive	September 2016
2045 & 2055 LaFayette Street	November 2016
150 South First Street	November 2016

During the three months ended September 30, 2007 and 2006, we capitalized interest of approximately $3.1 million and $0.9 million, respectively, and for the nine months ended September 30, 2007 and 2006, we capitalized interest of approximately $7.4 million and $2.7 million, respectively.

Exchangeable Senior Debentures due 2026

On August 15, 2006, the Operating Partnership issued $172.5 million of its 4.125% exchangeable senior debentures due August 15, 2026 (the Debentures). Costs incurred to issue the Debentures were approximately $6.2 million. These costs are being amortized over a period of five years, which represents the estimated term of the Debentures, and are included in deferred financing costs, net in the condensed consolidated balance sheet. The Debentures are general unsecured senior obligations of the Operating Partnership and rank equally in right of payment with all other senior unsecured indebtedness of the Operating Partnership.

Interest is payable on August 15 and February 15 of each year beginning February 15, 2007 until the maturity date of August 15, 2026. The Debentures bear interest at 4.125% per annum and contain an exchange settlement feature, which provides that the Debentures may, under certain circumstances, be exchangeable for cash (up to the principal amount of the Debentures) and, with respect to any excess exchange value, into cash, shares of our common stock or a combination of cash and shares of our common stock at an initial exchange rate of 30.6828 shares per $1,000 principal amount of Debentures.

Prior to August 18, 2011, the Operating Partnership may not redeem the Debentures except to preserve its status as a real estate investment trust for U.S. federal income tax purposes. On or after August 18, 2011, at the Operating Partnership s option, the Debentures are redeemable in cash in whole or in part at 100% of the principal amount plus unpaid interest, if any, accrued to, but excluding, the redemption date, upon at least 30 days but not more than 60 days prior written notice to holders of the Debentures.

The holders of the Debentures have the right to require the Operating Partnership to repurchase the Debentures in cash in whole or in part on each of August 15, 2011, August 15, 2016 and August 15, 2021, and in the event of a designated event, for a repurchase price equal to 100% of the principal amount of the Debentures plus unpaid interest, if any, accrued to, but excluding, the repurchase date. Designated events include certain merger or combination transactions, non-affiliates becoming the beneficial owner of more than 50% of the total voting power of our capital stock, a substantial turnover of our company s directors within a 12-month period, or if we cease to be the general partner of the Operating Partnership. Certain events are considered Events of Default, which may result in the accelerated maturity of the Debentures, including a default for 30 days in payment of any installment of interest under the Debentures, a default in the payment of the principal amount or any repurchase price or redemption price due with respect to the Debentures and the Operating Partnership s failure to deliver cash or any shares of our common stock within 15 days after the due date upon an exchange of the Debentures, together with any cash due in lieu of fractional shares of our common stock.

In addition, the Debentures are exchangeable (i) prior to July 15, 2026, during any fiscal quarter after the fiscal quarter ended September 30, 2006, if the closing sale price of the Company s common stock for 20 or more trading days in a period of 30 consecutive trading days ending on the last trading day of the immediately preceding fiscal quarter exceeds 130% of the exchange price in effect on the last trading day of the immediately preceding fiscal quarter, (ii) prior to July 15, 2026, during the five business day period after any five consecutive trading day period in which the average trading price per $1,000

14

Table of Contents

principal amount of Debentures was equal to or less than 98% of the product of the closing sale price of the common stock during such period, multiplied by the applicable exchange rate, (iii) if we call the Debentures for redemption, or (iv) any time on or after July 15, 2026.

We have entered into a registration rights agreement whereby we agreed to register the shares of common stock which could be issued in the future upon exchange of the Debentures. We filed the shelf registration statement with the U.S. Securities and Exchange Commission in April 2007.

Table of Contents

7. Income (Loss) per Share

The following is a summary of basic and diluted income (loss) per share (in thousands, except share and per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Income from continuing operations	$ 5,151	$ 4,326	$ 18,799	$ 14,555
Preferred stock dividends	(5,359)	(3,445)	(13,971)	(10,335)
Income (loss) from continuing operations available to common stockholders	(208)	881	4,828	4,220
Income (loss) from discontinued operations	(16)	10,461	16,180	10,414
Net income (loss) available to common stockholders	$ (224)	$ 11,342	$ 21,008	$ 14,634
Weighted average shares outstanding basic	60,717,153	36,114,253	59,324,104	32,361,456
Potentially dilutive common shares:				
Stock options		388,769	348,594	393,567
Class C Units (2005 OPP Grant)		943,871	910,993	929,058
Excess exchange value of exchangeable senior debentures			781,590	
Weighted average shares outstanding diluted	60,717,153	37,446,893	61,365,281	33,684,081
Income (loss) per share - basic:				
Income (loss) per share from continuing operations available to common stockholders	$	$ 0.02	$ 0.08	$ 0.13
Income per share from discontinued operations		0.29	$ 0.27	0.32
Net income (loss) per share available to common stockholders	$	$ 0.31	$ 0.35	$ 0.45
Income (loss) per share - diluted:				
Income (loss) per share from continuing operations available to common stockholders	$	$ 0.02	$ 0.08	$ 0.13
Income per share from discontinued operations		0.28	0.26	0.30
Net income (loss) per share available to common stockholders	$	$ 0.30	$ 0.34	$ 0.43

We have excluded the following potentially dilutive securities in the calculations above as they would be antidilutive or not dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Weighted average of common Operating Partnership units not owned by us	7,278,239	26,950,372	8,632,556	28,502,124
Potentially dilutive outstanding stock options	1,212,455	55,000	617,917	55,000
Potentially dilutive outstanding Class C Units (2005 OPP Grant)	915,519			
Potentially dilutive outstanding Class C Units (2007 OPP Grant)	750,724		750,724	
Potentially dilutive Series C Cumulative Convertible Preferred Stock	3,614,800		2,303,938	
Excess exchange value of senior exchangeable debentures	681,317			
	14,453,054	27,005,372	12,305,135	28,557,124

On or after July 15, 2026, the Debentures may be exchanged at the then applicable exchange rate for cash (up to the principal amount of the Debentures) and, with respect to any excess exchange value, into cash, shares of our common stock or a combination of cash and shares of our common stock at an initial exchange rate of 30.6828 shares per $1,000 principal amount of Debentures. The Debentures will also be exchangeable prior to July 15, 2026, but only upon the occurrence of certain specified events. During the period from January 1, 2007 through September 30, 2007, the weighted average common stock price exceeded the current strike price of $32.59 per share. Therefore, using the treasury method, 781,590 shares of common stock are contingently issuable upon settlement of the excess exchange value was included as potentially dilutive common shares in determining diluted earnings per share for the nine months ended September 30, 2007.

Table of Contents

8. Income Taxes

We have elected to be taxed as a REIT and believe that we have complied with the REIT requirements of the Code as of September 30, 2007. As a REIT, we are generally not subject to corporate level federal income and excise taxes on taxable income to the extent it is currently distributed to our stockholders. As such, no provision for federal income taxes has been included in the accompanying consolidated financial statements for the nine months ended September 30, 2007.

As a REIT, we are subject to local and state taxes in certain states where we operate. We are also subject to foreign income taxes in countries that do not recognize REITs under their respective tax laws. Income taxes for these jurisdictions are accrued, as necessary, for the nine months ended September 30, 2007.

We have elected taxable REIT subsidiary (TRS) status for some of our consolidated subsidiaries. In general, a TRS may provide services that would otherwise be considered impermissible for REITs and hold assets that we cannot hold directly. We recognize federal and state income tax expenses for TRS entities, as necessary. There is no current tax provision for our TRS entities for the nine months ended September 30, 2007 due to taxable losses incurred.

Effective January 1, 2007, we adopted Financial Accounting Standard Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48) an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Based on our evaluation, adoption of FIN 48 did not have any impact on our consolidated financial statements as of September 30, 2007.

9. Stockholders Equity

(a) Redeemable Preferred Stock

Underwriting discounts and commissions and other offering costs are reflected as a reduction to preferred stock in the accompanying condensed consolidated balance sheets.

8.50% Series A Cumulative Redeemable Preferred Stock

We currently have outstanding 4,140,000 shares of our 8.50% series A cumulative redeemable preferred stock, or series A preferred stock. Dividends are cumulative on our series A preferred stock from the date of original issuance in the amount of $2.125 per share each year, which is equivalent to 8.50% of the $25.00 liquidation preference per share. Dividends on our series A preferred stock are payable quarterly in arrears. Our series A preferred stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. Upon liquidation, dissolution or winding up, our series A preferred stock will rank senior to our common stock with respect to the payment of distributions and other amounts and rank on parity with our series B and series C preferred stock. We are not allowed to redeem our series A preferred stock before February 9, 2010, except in limited circumstances to preserve our status as a REIT. On or after February 9, 2010, we may, at our option, redeem our series A preferred stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on such series A preferred stock up to but excluding the redemption date. Holders of our series A preferred stock generally have no voting rights except for limited voting rights if we fail to pay dividends for six or more quarterly periods (whether or not consecutive) and in certain other circumstances. Our series A preferred stock is not convertible into or exchangeable for any other property or securities of our company.

7.875% Series B Cumulative Redeemable Preferred Stock

We currently have outstanding 2,530,000 shares of our 7.875% series B cumulative redeemable preferred stock, or series B preferred stock. Dividends are cumulative on our series B preferred stock from the date of original issuance in the amount of $1.96875 per share each year, which is equivalent to 7.875% of the $25.00 liquidation preference per share. Dividends on our series B preferred stock are payable quarterly in arrears. Our series B preferred stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. Upon liquidation, dissolution or winding up, our series B preferred stock will rank senior to our common stock with respect to the payment of distributions and other amounts and rank on parity with our series A and series C preferred stock. We are not allowed to redeem our series B preferred stock before July 26, 2010, except in limited circumstances to preserve our status as a REIT. On or after July 26, 2010, we may, at our option, redeem our series B preferred stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on such series B preferred stock up to but excluding the redemption date. Holders of our series B preferred stock generally have no voting rights except for limited voting rights if we fail to pay dividends for six or more quarterly periods (whether or not consecutive) and in certain other circumstances. Our series B preferred stock is not convertible into or exchangeable for any other property or securities of our company.

Table of Contents

(b) Convertible Preferred Stock

Underwriting discounts and commissions and other offering costs are reflected as a reduction to preferred stock in the accompanying condensed consolidated balance sheets.

4.375% Series C Cumulative Convertible Preferred Stock

On April 10, 2007, we issued 7,000,000 shares of our 4.375% series C cumulative convertible preferred stock, or series C preferred stock. Dividends are cumulative on our series C preferred stock from the date of original issuance in the amount of $1.09375 per share each year, which is equivalent to 4.375% of the $25.00 liquidation preference per share. Dividends on our series C preferred stock are payable quarterly in arrears. Our series C preferred stock does not have a stated maturity date and is not subject to any sinking fund or mandatory redemption provisions. Upon liquidation, dissolution or winding up, our series C preferred stock will rank senior to our common stock with respect to the payment of distributions and other amounts and rank on parity with our series A and series B preferred stock. We are not allowed to redeem our series C preferred stock, except in limited circumstances to preserve our status as a REIT. Holders of our series C preferred stock generally have no voting rights except for limited voting rights if we fail to pay dividends for six or more quarterly periods (whether or not consecutive) and in certain other circumstances.

Holders of shares of series C preferred stock may convert some or all of their outstanding shares of series C preferred stock initially at a conversion rate of 0.5164 shares of common stock per $25.00 liquidation preference. Except as otherwise provided, shares of our series C preferred stock will be convertible only into shares of our common stock. On or after April 10, 2012, we may, at our option, convert some or all of our series C preferred stock into that number of shares of common stock that are issuable at the then-applicable conversion rate. We may exercise this conversion option only if (1) the closing sale price per share of our common stock equals or exceeds 130% of the then-applicable conversion price of our series C preferred stock for at least 20 trading days in a period of 30 consecutive trading days (including the last trading day of such period) ending on the trading day immediately prior to our issuance of a press release announcing the exercise of our conversion option; and (2) on or prior to the effective date of our conversion option, we have either declared and paid, or declared and set apart for payment, any unpaid dividends that are in arrears on our series C preferred stock.

(c) Shares and Units

A common unit of the Operating Partnership and a share of our common stock have essentially the same economic characteristics as they share equally in the total net income or loss and distributions of the Operating Partnership. The Operating Partnership common units are further discussed in note 3, including the redemption of the Operating Partnership common units for shares of our common stock during the nine months ended September 30, 2007 and the long term incentive units are discussed in note 10.

Table of Contents

(d) Dividends and Distributions

In 2007, we have declared the following dividends and equivalent distributions on common units in our Operating Partnership:

Date dividend and distribution declared	Share class	Dividend and distribution amount per share	Period covered	Dividend and distribution payable date	Annual equivalent rate of dividend and distribution per share	Dividend and distribution amount (in thousands)
February 15, 2007	Series A Preferred Stock	$ 0.531250	January 1, 2007 to March 31, 2007	April 2, 2007 to shareholders of record on March 15, 2007.	$ 2.125	$ 2,199
February 15, 2007	Series B Preferred Stock	$ 0.492188	January 1, 2007 to March 31, 2007	April 2, 2007 to shareholders of record on March 15, 2007.	$ 1.969	$ 1,246
February 15, 2007	Common stock and operating partnership common units and long term incentive units.	$ 0.286250	January 1, 2007 to March 31, 2007	April 2, 2007 to shareholders of record on March 15, 2007.	$ 1.145	$ 19,442
May 2, 2007	Series A Preferred Stock	$ 0.531250	April 1, 2007 to June 30, 2007	July 2, 2007 to shareholders of record on June 15, 2007.	$ 2.125	$ 2,199
May 2, 2007	Series B Preferred Stock	$ 0.492188	April 1, 2007 to June 30, 2007	July 2, 2007 to shareholders of record on June 15, 2007.	$ 1.969	$ 1,246
May 2, 2007	Series C Preferred Stock	$ 0.246090	April 10, 2007 to June 30, 2007	July 2, 2007 to shareholders of record on June 15, 2007.	$ 1.094	$ 1,723
May 2, 2007	Common stock and operating partnership common units and long term incentive units.	$ 0.286250	April 1, 2007 to June 30, 2007	July 2, 2007 to shareholders of record on June 15, 2007.	$ 1.145	$ 19,458
August 1, 2007	Series A Preferred Stock	$ 0.531250	July 1, 2007 to September 30, 2007	October 1, 2007 to shareholders of record on September 17, 2007.	$ 2.125	$ 2,199
August 1, 2007	Series B Preferred Stock	$ 0.492188	July 1, 2007 to September 30, 2007	October 1, 2007 to shareholders of record on September 17, 2007.	$ 1.969	$ 1,246
August 1, 2007	Series C Preferred Stock	$ 0.273438	July 1, 2007 to September 30, 2007	October 1, 2007 to shareholders of record on September 17, 2007.	$ 1.094	$ 1,914
August 1, 2007	Common stock and operating partnership common units and long term incentive units.	$ 0.286250	July 1, 2007 to September 30, 2007	October 1, 2007 to shareholders of record on September 17, 2007.	$ 1.145	$ 19,465

10. Incentive Award Plan

Our 2004 Incentive Award Plan provides for the grant of incentive awards to employees, directors and consultants. Awards issuable under the 2004 Incentive Award Plan include stock options, restricted stock, dividend equivalents, stock appreciation rights, long-term incentive units, cash performance bonuses and other incentive awards. Only employees are eligible to receive incentive stock options under the 2004 Incentive Award Plan. Initially, we had reserved a total of 4,474,102 shares of common stock for issuance pursuant to the 2004 Incentive Award Plan, subject to certain adjustments set forth in the 2004 Incentive Award Plan. On May 2, 2007, our stockholders approved the Amended and Restated Digital Realty Trust, Inc., Digital Realty Services, Inc. and Digital Realty Trust, L.P. 2004 Incentive Award Plan (the Amended and Restated 2004 Incentive Award Plan). The Amended and Restated 2004 Incentive Award Plan increases the aggregate number of shares of stock which may be issued or transferred under the plan by 5,000,000 shares to a total of 9,474,102 shares, and provides that the maximum number of shares of stock with respect to awards granted to any one participant during a calendar year will be 1,500,000 and the maximum amount that may be paid in cash during any calendar year with respect to any performance-based award not denominated in stock or otherwise for which the foregoing limitation would not be an effective limitation for purposes of Section 162(m) of the Code will be $10.0 million.

As of September 30, 2007, 4,154,137 shares of common stock or awards convertible into or exchangeable for common stock remained available for future issuance under the Amended and Restated 2004 Incentive Award Plan. Each long-term incentive and Class C Unit issued under the Amended and Restated 2004 Incentive Award Plan will count as one share of common stock for purposes of calculating the limit on shares that may be issued under the Amended and Restated 2004 Incentive Award Plan and the individual award limit discussed above.

(a) Long-Term Incentive Units

Long-term incentive units may be issued to eligible participants for the performance of services to or for the benefit of the Operating Partnership. Long-term incentive units, whether vested or not, will receive the same quarterly per unit distributions as Operating Partnership common units, which equal per share distributions on our common stock. Initially, long-term incentive units do not have full parity with common units with respect to liquidating distributions. Upon the occurrence of specified events, long-term incentive units may over time achieve full parity with Operating Partnership common units for all purposes, and therefore accrete to an economic value for participants equivalent to our common stock on a one-for-one basis. If such parity is reached, vested long-term incentive units may be converted into an equal number of common units of the Operating Partnership at any time, and thereafter enjoy all the rights of common units of the Operating Partnership.

In connection with the IPO, an aggregate of 1,490,561 of fully vested long-term incentive units were issued and compensation expense totaling $17.9 million was recorded at the completion of the IPO. Subsequent to the IPO, we have issued 201,965 long-term incentive units. The fair values are being expensed on a straight-line basis over the vesting period of the long-term incentive units, which is five years. The expense recorded for the three months ended September 30, 2007 and 2006 was approximately $243,000 and $138,000, respectively, and was approximately $582,000 and $401,000 for the nine months ended September 30, 2007 and 2006, respectively. Unearned compensation representing the unvested portion of the long-term incentive units totaled $4.1 million and $2.3 million as of September 30, 2007 and December 31, 2006, respectively. We expect to recognize this unearned compensation over the next 4.0 years on a weighted average basis.

(b) Class C Profits Interest Units

2005 Outperformance Plan Grant

During the fourth quarter of 2005, we granted to each of our named executive officers and certain other employees an award of Class C Units under our 2004 Incentive Award Plan (2005 OPP Grant).

The Class C Units subject to this award will vest based on the achievement of a 10% or greater compound annual total shareholder return, as defined, for the period from the grant date through earlier of September 30, 2008 and the date of a change of control of our Company (the market condition) combined with the employee s continued service with our company or the Operating Partnership through September 30, 2010. Upon achievement of the market condition, the Class C units will receive the same quarterly per unit distribution as common units in the Operating Partnership.

The aggregate amount of the 2005 OPP Grant award pool will be equal to 7% of the excess shareholder value, as defined, created during the applicable performance period, but in no event will the amount of the pool exceed the lesser of $40.0 million or the value of 2.5% of the total number of shares of our common stock and limited partnership units of the Operating Partnership at the end of the performance period.

2007 Outperformance Plan Grant

On May 2, 2007, we granted to each of our named executive officers and certain other officers and employees an award of Class C Units of the Operating Partnership under the First Amended and Restated 2004 Incentive Award Plan (2007 OPP Grant).

The Class C Units subject to this award will vest based on the achievement of a total shareholder return (which we refer to as the market condition) as measured on November 1, 2008 (which we refer to as the first measurement date) and May 1, 2010 (which we refer to as the second measurement date). If:

- with respect to the first measurement date, we achieve a total shareholder return equal to at least 18% over a period commencing on May 2, 2007 and ending on November 1, 2008; and

- with respect to the second measurement date, we achieve a total shareholder return equal to at least 36% over a period commencing on May 2, 2007 and ending on the earlier of May 1, 2010 and the date of a change in control of our company,

The aggregate amount of the 2007 OPP Grant award pool will be equal to 8% of the excess shareholder value, as defined, created during the applicable performance period, but in no event will the amount of the pool exceed:

- $17 million for the first measurement date; or

$40 million (less the amount of the award pool as of the first measurement date) for the second measurement date.

The first and second measurement dates may be accelerated as follows:

in the event that during any 60 consecutive days ending prior to November 1, 2008, the 2007 OPP Grant award pool, if calculated on each day during such period, equals or exceeds $17.0 million on each such day, the first measurement date will be accelerated to the last day of the 60-day period; and

Table of Contents

in the event that during any 60 consecutive days ending prior to May 1, 2010, the 2007 OPP Grant award pool, if calculated on each day during such period, equals or exceeds $40.0 million on each such day, the second measurement date will be accelerated to the last day of the 60-day period; and

upon a change in control of the Company.

Common Provisions for the 2005 OPP Grant and 2007 OPP Grant

Except in the event of a change in control of our company, 60% of the Class C Units that satisfy the applicable market condition will vest at the end of the three year period subsequent to grant and an additional 1/60th of such Class C Units will vest on the date of each monthly anniversary thereafter, provided that the employee s service has not terminated prior to the applicable vesting date. If the market condition and the other service conditions, as described above, are satisfied with respect to a Class C Unit, the Class C Unit will be treated in the same manner as the existing long-term incentive units issued by the Operating Partnership.

To the extent that any Class C Units fail to satisfy the market condition on the measurement dates discussed above, such Class C Units will automatically be cancelled and forfeited by the employee. In addition, any Class C Units which are not eligible for pro rata vesting in the event of a termination of the employee s employment due to death or disability or without cause (or for good reason, if applicable) will automatically be cancelled and forfeited upon a termination of the employee s employment.

In the event that the value of the employee s allocated portion of the award pool that satisfies the market condition equates to a number of Class C Units that is greater than the number of Class C Units awarded to the executive, we will make an additional payment to the executive in the form of a number of shares of our restricted stock equal to the difference subject to the same vesting requirements as the Class C Units.

As of September 30, 2007 and December 31, 2006, approximately 1,203,000 Class C Units related to the 2005 OPP Grant had been awarded to our executive officers and other employees. The fair value of these awards of approximately $4.0 million will be recognized as compensation expense on a straight line basis over the expected service period of five years. The unearned compensation as of September 30, 2007 and December 31, 2006 was $2.4 million and $3.0 million, respectively. As of September 30, 2007 and December 31, 2006, none of the above awards had vested. We recognized compensation expense related to these Class C Units of $0.2 million in the three months ended September 30, 2007 and 2006 and $0.6 million in the nine months ended September 30, 2007 and 2006. If the market condition is not met, the unamortized amount will be recognized as an expense at that time.

As of September 30, 2007, approximately 751,000 Class C Units related to the 2007 OPP Grant had been awarded to our executive officers and other employees. The fair value of these awards of approximately $11.8 million will be recognized as compensation expense on a straight line basis over the expected service period of five years. The unearned compensation as of September 30, 2007 was $10.8 million. As of September 30, 2007, none of the above awards had vested. We recognized compensation expense related to these Class C Units of $0.5 million and $0.8 million in the three and nine months ended September 30, 2007, respectively. We capitalized amounts relating to compensation expense of employees directly engaged in construction and leasing activities of $0.1 million and $0.2 million for the three and nine months ended September 30, 2007, respectively. If the market condition is not met, the unamortized amount will be recognized as an expense at that time.

(c) Stock Options

The fair value of each option granted under the 2004 Incentive Award Plan is estimated on the date of the grant using the Black-Scholes option-pricing model with the weighted-average assumptions listed below for grants in 2007 and 2006. The fair values are being expensed on a straight-line basis over the vesting period of the options, which ranges from four to five years. The expense recorded for the three months ended September 30, 2007 and 2006 was approximately $295,000 and $71,000, respectively, and was approximately $687,000 and $221,000 for the nine months ended September 30, 2007 and 2006, respectively. Unearned compensation representing the unvested portion of the stock options totaled $5.4 million and $2.2 million as of September 30, 2007 and December 31, 2006, respectively. We expect to recognize this unearned compensation over the next 4.1 years on a weighted average basis.

Table of Contents

The following table sets forth the weighted-average assumptions used to calculate the fair value of the stock options granted during the three and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
Dividend yield		3.88%	2.76%	3.80%
Expected life of option		120 months	80 months	120 months
Risk-free interest rate		4.99%	4.65%	4.65%
Expected stock price volatility		29.41%	22.82%	25.72%
Weighted-average fair value of options granted during the period		$ 7.43	$ 9.70	$ 6.58

The following table summarizes the 2004 Incentive Award Plan s stock option activity for the nine months ended September 30, 2007:

	Nine months ended September 30, 2007 Shares	Weighted average exercise price
Options outstanding, beginning of period	770,596	$ 18.05
Granted	481,500	41.51
Exercised	(27,640)	19.03
Cancelled	(12,001)	29.59
Options outstanding, end o f period	1,212,455	$ 27.23
Exercisable, end of period	154,466	$ 19.26

We issued new common shares for the common stock options exercised during the nine months ended September 30, 2007. The intrinsic value of options exercised in the nine months ended September 30, 2007 was approximately $0.5 million.

The following table summarizes information about stock options outstanding and exercisable as of September 30, 2007:

	Options outstanding				Options exercisable			
Exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Aggregate Intrinsic Value	Number exercisable	Weighted average remaining contractual life	Weighted average exercise price	Aggregate Intrinsic Value
$12.00-13.02	430,304	7.09	$ 12.07	$ 11,756,319	74,959	7.09	$ 12.07	$ 2,047,900
$13.47-14.50	40,000	7.34	14.21	1,007,188	15,000	7.35	$ 14.24	377,213
$20.37-28.09	128,151	8.21	22.72	2,135,871	27,310	8.20	$ 22.79	453,441
$33.18-41.73	614,000	9.47	39.65	(157,260)	37,197	9.09	33.18	230,993
	1,212,455	8.42	$ 27.23	$ 14,742,118	154,466	7.79	$ 19.26	$ 3,109,547

11. Derivative Instruments

(a) Interest rate swap agreements

As of September 30, 2007, we were a party to interest rate swap agreements which hedge variability in cash flows related to LIBOR, GBP LIBOR and EURIBOR based mortgage loans. The fair value of these derivatives was $3.5 million and $3.3 million at September 30, 2007 and

December 31, 2006, respectively.

As of September 30, 2007, we estimate that approximately $1.5 million of accumulated other comprehensive income will be reclassified to earnings through a reduction to interest expense during the twelve months ending September 30, 2008, when the hedged forecasted transactions impact earnings.

Table of Contents

The table below summarizes the terms of these interest rate swaps and their fair values as of September 30, 2007 (in thousands):

Current Notional Amount	Strike Rate	Effective Date	Expiration Date	Fair Value
$ 98,222	4.025	May 26, 2005	Jun. 15, 2008	$ 519
8,617	5.020	Dec. 1, 2006	Dec. 1, 2008	(31)
27,006 (1)	4.944	Jul. 10, 2006	Apr. 10, 2011	534
15,672 (2)	3.981	May 17, 2006	Jul. 18, 2013	340
11,337 (2)	4.070	Jun. 23, 2006	Jul. 18, 2013	196
9,976 (2)	3.989	Jul. 27, 2006	Oct. 18, 2013	223
46,422 (2)	3.776	Dec. 5, 2006	Jan. 18, 2012	1,091
39,912 (2)	4.000	Dec. 20, 2006	Jan. 18, 2012	597
$ 257,164				$ 3,469

(1) Translation to U.S. dollars is based on exchange rate of $2.04 to £1.00 as of September 30, 2007.

(2) Translation to U.S. dollars is based on exchange rate of $1.43 to 1.00 as of September 30, 2007.

(b) Foreign currency contract

On January 4, 2006, we received net proceeds of $0.7 million when we terminated a foreign currency forward sale contract entered into on January 24, 2005 which was used to hedge our equity investment in 6 Braham Street, located in London, England. This forward contract was designated as a net investment hedge. The cumulative translation adjustment amounts related to the net investment hedge (including the $0.7 million received upon termination in January 2006) are included in other accumulated comprehensive income and will be reclassified to earnings when the hedged investment is sold or liquidated.

12. Related Party Transactions

We paid CB Richard Ellis, an affiliate of GI Partners, building management fees and leasing commissions. Fees incurred were $0.3 million and $0.4 million for the three months ended September 30, 2007 and 2006, respectively and $1.1 million and $1.9 million for the nine months ended September 30, 2007 and 2006, respectively.

In April 2005, we entered into two agreements with Linc Facility Services, LLC, or LFS, primarily for personnel providing operations and maintenance repairs of the mechanical, electrical, plumbing and general building service systems of five of our properties. LFS belongs to The Linc Group, which GI Partners has owned since late 2003. Our consolidated statement of operations includes amounts related to these fees of $0.1 million and $0.3 million for the three months ended September 30, 2007 and 2006, respectively and $0.6 million and $1.0 million for the nine months ended September 30, 2007 and 2006, respectively. As of September 30, 2007, all of the contracts have expired and have not been renewed.

In December 2006, we entered into ten leases with tel(x), pursuant to which tel(x) provides enhanced meet-me-room services to our customers. tel(x) was acquired by GI Partners Fund II, LLP in November 2006. Richard Magnuson, our Chairman, is also the chief executive officer of the advisor to GI Partners Fund II, LLP. Our consolidated statements of operations include rental revenues of approximately $3.5 million and $10.1 million from tel(x) for the three and nine months ended September 30, 2007. In connection with the lease agreements, we entered into an operating agreement with tel(x), effective as of December 1, 2006, with respect to joint sales and marketing efforts, designation of representatives to manage the national relationship between us and tel(x) and future meet-me-room facilities. Under the operating agreement, tel(x) has a sixty-day option to enter into a meet-me-room lease for certain future meet-me-room buildings acquired by us or any buildings currently owned by us that are converted into a meet-me-room building.

We also entered into a referral agreement with tel(x), effective as of December 1, 2006, with respect to referral fees arising out of potential future lease agreements for rentable space in buildings covered by the meet-me-room lease agreements. Additionally, we have the right to purchase approximately 10% or 1.6 million shares of tel(x) preferred stock. The purchase price would be calculated as GI Partners Fund II, LLP s initial cost plus a 12% per annum return. We have the right to purchase, at market, a pro-rata share of any follow on tel(x) equity transactions to prevent dilution to our option to acquire approximately 10%. The option to purchase the preferred stock will expire in November 2008.

Table of Contents

In March 2007, we acquired a leasehold interest totaling 33,700 square feet of datacenter space from NYC Connect at 111 8th Avenue, New York for $24.5 million. Concurrently and pursuant to separately negotiated purchase agreements, tel(x) acquired certain meet-me-room space in the same building from NYC Connect.

13. Commitments and Contingencies

As part of the acquisition of Clonshaugh Industrial Estate, we entered into an agreement with the seller whereby the seller is entitled to receive 40% of the net rental income generated by the existing building for a 10-year period, after we have received a 9% return on all capital invested in the property. As of February 6, 2006, the date we acquired this property, we have estimated the present value of these expected payments to be approximately $1.1 million and this value has been capitalized. Accounts payable and other liabilities include $1.4 million and $1.3 million for this liability as of September 30, 2007 and December 31, 2006, respectively. During the nine months ended September 30, 2007, we paid approximately $0.1 million to the seller.

We have agreed with the seller of the 350 East Cermak Road to share a portion, not to exceed $135,000 per month, of rental revenue, adjusted for our costs to lease the premises, from the lease of the 263,000 square feet of space held for redevelopment. This revenue sharing agreement will terminate in May 2013. We have recorded no liability for this contingent liability on our balance sheet at September 30, 2007.

Our properties require periodic investments of capital for tenant-related capital expenditures and for general capital improvements. As of September 30, 2007, we had commitments under leases in effect for approximately $24.1 million of redevelopment, tenant improvement costs and leasing commissions all of which we expect to incur in the near future.

14. Tenant Leases

Revenues recognized from Savvis Communications comprised approximately 10.2% and 12.8% of total operating revenues, for the three months ended September 30, 2007 and 2006, respectively and 11.6% and 13.0% of total operating revenues, for the nine months ended September 30, 2007 and 2006, respectively. Revenues recognized from Qwest Communications International, Inc. comprised approximately 7.7% and 10.5% of total operating revenues, for the three months ended September 30, 2007 and 2006, respectively and 8.1% and 11.7% of total operating revenues, for the nine months ended September 30, 2007 and 2006, respectively. Other than noted here, for the three and nine months ended September 30, 2007 and 2006 no single tenant comprised more than 10% of total operating revenues.

15. Subsequent Events

On October 22, 2007, we completed an offering of 4,025,000 shares of common stock for total net proceeds, after underwriting discounts and estimated expenses, of $150.5 million, including the proceeds from the exercise of the underwriters over-allotment option. We used the net proceeds from the offering to temporarily repay borrowings under our credit facility.

On November 1, 2007, we declared the following dividends per share and the Operating Partnership declared an equivalent distribution per unit.

Share Class	Series A Preferred Stock	Series B Preferred Stock	Series C Preferred Stock	Common stock and common unit
Dividend and distribution amount	$ 0.531250	$ 0.492188	$ 0.273438	$ 0.310000
Dividend and distribution payable date	December 31, 2007	December 31, 2007	December 31, 2007	January 14, 2008
Dividend payable to shareholders of record on	December 17, 2007	December 17, 2007	December 17, 2007	December 31, 2007
Annual equivalent rate of dividend and distribution	$ 2.125	$ 1.969	$ 1.094	$ 1.240

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this report. This report contains forward-looking statements within the meaning of the federal securities laws. We caution investors that any forward-looking statements presented in this report, or which management may make orally or in writing from time to time, are based on management s beliefs and assumptions made by, and information currently available to, management. When used, the words anticipate, believe, expect, intend, may, might, plan, estimate, project, should, will, result and similar expressions, which do not relate matters, are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following: adverse economic or real estate developments in our markets or technology related real estate; general and local economic conditions; defaults on or non-renewal of leases by tenants; increased interest rates and operating costs; our inability to manage growth effectively; our failure to obtain necessary outside financing; decreased rental rates or increased vacancy rates; difficulties in identifying properties to acquire and completing acquisitions; our failure to successfully operate acquired properties and operations; our failure to successfully develop our existing space held for redevelopment and new properties acquired for that purpose; our failure to maintain our status as a REIT; possible adverse changes to tax laws; environmental uncertainties and risks related to natural disasters; financial market fluctuations; changes in foreign currency exchange rates; changes in real estate and zoning laws; competition and increases in real property tax rates.

The risks included here are not exhaustive, and additional factors could adversely affect our business and financial performance, including factors and risks included in other sections of this report. In addition, we discussed a number of material risks in our annual report on Form 10-K for the year ended December 31, 2006 and our quarterly report on Form 10-Q for the quarter ended June 30, 2007, and we discuss additional material risks in this quarterly report on Form 10-Q. Those risks continue to be relevant to our performance and financial condition. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Overview

Our Company. We completed our initial public offering of common stock (IPO) on November 3, 2004. We believe that we have operated in a manner that has enabled us to qualify, and have elected to be treated, as a Real Estate Investment Trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code). Our company was formed on March 9, 2004. During the period from our formation until we commenced operations in connection with the completion of our IPO we did not have any corporate activity other than the issuance of shares of common stock in connection with the initial capitalization of the company. Any reference to our , we and us in this filing includes our company and our predecessor. Our predecessor is comprised of the real estate activities and holdings of Global Innovation Partners LLC (GI Partners) which GI Partners contributed to us in connection with our IPO.

Business and strategy. Our primary business objectives are to maximize sustainable long-term growth in earnings, funds from operations and cash flow per share and to maximize returns to our stockholders. We expect to achieve our objectives by focusing on our core business of investing in and redeveloping technology-related real estate. We target high quality, strategically located properties containing applications and operations critical to the day-to-day operations of corporate enterprise datacenter and technology industry tenants and properties that may be redeveloped for such use. Most of our properties contain fully redundant electrical supply systems, multiple power feeds, above-standard precision cooling systems, raised floor areas, extensive in-building communications cabling and high-level security systems. We focus solely on technology-related real estate because we believe that the growth in corporate datacenter adoption and the technology-related real estate industry generally will be superior to that of the overall economy.

As of September 30, 2007, we own an aggregate of 67 technology-related real estate properties, excluding one property held as an investment in an unconsolidated joint venture, with 12.0 million rentable square feet including approximately 1.7 million square feet of space held for redevelopment. At September 30, 2007, approximately 298,000 square feet of our

25

Table of Contents

space held for redevelopment was under construction for Turn-Key Datacenter , build-to-suit datacenter and Powered Base Building space in nine U.S. and European markets. We have developed detailed, standardized procedures for evaluating acquisitions to ensure that they meet our financial, technical and other criteria. We expect to continue to acquire additional assets as a key part of our growth strategy. We intend to aggressively manage and lease our assets to increase their cash flow. We will continue to build out our redevelopment portfolio when justified by anticipated returns

We may acquire properties subject to existing mortgage financing and other indebtedness or new indebtedness may be incurred in connection with acquiring or refinancing these properties. Debt service on such indebtedness will have a priority over any dividends with respect to our common stock and our preferred stock. We currently intend to limit our indebtedness to 60% of our total market capitalization and, based on the closing price of our common stock on September 30, 2007 of $39.39, our ratio of debt to total market capitalization was approximately 31% as of September 30, 2007. Our total market capitalization is defined as the sum of the market value of our outstanding common stock (which may decrease, thereby increasing our debt to total market capitalization ratio), excluding options issued under our incentive award plan, plus the liquidation value of our preferred stock, plus the aggregate value of the units not held by us (with the per unit value equal to the market value of one share of our common stock and excluding long-term incentive units and Class C units), plus the book value of our total consolidated indebtedness.

Revenue Base. Our properties are mainly located throughout the U.S., with eight properties located in Europe and one property in Canada. We acquired our first portfolio property in January 2002 and have added properties as follows:

Year Ended December 31:	**Properties Acquired (1)**	**Net Rentable Square Feet Acquired (2)**	**Square Feet of Space Held for Redevelopment as of September 30, 2007 (3)**
2002	5	1,125,292	19,890
2003	6	878,861	179,499
2004	10	2,653,613	32,856
2005	20	3,050,673	459,624
2006	16	1,797,540	548,558
Nine months ended September 30, 2007	10	805,878	467,632
Properties owned as of September 30, 2007	67	10,311,857	1,708,059

(1) Excludes properties sold in 2007 and 2006: 100 Technology Center Drive (March 2007), 4055 Valley View Lane (March 2007) and 7979 East Tufts Avenue (July 2006). Also excludes a leasehold interest acquired in March 2007 related to an acquisition made in 2006.

(2) Excludes space held for redevelopment.

(3) Redevelopment space is unoccupied space that requires significant capital investment in order to develop datacenter facilities that are ready for use. Most often this is shell space. However, in certain circumstances this may include partially built datacenter space that was not completed by previous ownership and requires a large capital investment in order to build out the space. The amounts included in this table represent redevelopment space as of September 30, 2007 in the properties acquired during the relevant period.

As of September 30, 2007, the properties in our portfolio were approximately 95.1% leased excluding 1.7 million square feet held for redevelopment. Due to the capital intensive and long term nature of the operations being supported, our lease terms are generally longer than standard commercial leases. As of September 30, 2007, our original average lease term was approximately 13 years, with an average of seven years remaining. Leasing since the completion of our initial public offering in November 2004 has typically been at lease terms shorter than 12 years. Our lease expirations through December 31, 2009 are 9.6% of net rentable square feet excluding space held for redevelopment as of September 30, 2007. Operating revenues from properties outside the United States were $9.0 million and $3.2 million for the three months ended September 30, 2007 and 2006, respectively and $24.1 million and $8.7 million for the nine months ended September 30, 2007 and 2006, respectively.

Operating expense. Our operating expenses generally consist of utilities, property and ad valorem taxes, insurance and site operating and maintenance costs, as well as rental expenses on our ground and building leases. In addition, as a public company, we incur significant legal, accounting and other expenses related to corporate governance, U.S. Securities and Exchange Commission reporting and compliance with the various provisions of Sarbanes-Oxley Act of 2002. In addition, we engage third-party property managers to manage most of our properties. As of September 30, 2007, 35 of our properties were managed by CB Richard Ellis, an affiliate of GI Partners.

Table of Contents

Equity and Minority Interest Transactions. During the three months ended March 31, 2007, GI Partners distributed their remaining 6.5 million Operating Partnership common units to their investors, of which approximately 6.2 million Operating Partnership common units were redeemed in exchange for an equal number of shares of our common stock. These redemptions were recorded as a reduction to minority interest and an increase to common stock and additional paid-in capital based on the book value per unit in the accompanying condensed consolidated balance sheet. We did not receive any cash proceeds upon redemption of these Operating Partnership common units. As of September 30, 2007, GI Partners no longer had an ownership interest in the Operating Partnership.

On October 22, 2007, we completed an offering of 4,025,000 shares of common stock for total net proceeds, after underwriting discounts and estimated expenses, of approximately $150.5 million, including the proceeds from the exercise of the underwriters over-allotment option. We used the net proceeds from the offering to temporarily repay borrowings under our unsecured revolving credit facility.

Factors Which May Influence Future Results of Operations

Rental income. The amount of rental income generated by the properties in our portfolio depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space and space available from lease terminations. Excluding 1.7 million square feet held for redevelopment, as of September 30, 2007, the occupancy rate in the properties in our portfolio was approximately 95.1% of our net rentable square feet.

The amount of rental income generated by us also depends on our ability to maintain or increase rental rates at our properties. Included in our approximately 10.3 million square feet of net rentable square feet, excluding redevelopment space, at September 30, 2007 is approximately 100,000 net rentable square feet of space with extensive datacenter improvements that is currently, or will shortly be, available for lease. Since our IPO, we have leased approximately 1,083,000 square feet of similar space. These Turn-Key Datacenters are effective solutions for tenants who lack the expertise or capital budget to provide their own extensive datacenter infrastructure and security. As experts in datacenter construction and operations we are able to lease space to these tenants at a significant premium over other uses. Negative trends in one or more of these factors could adversely affect our rental income in future periods.

In addition, as of September 30, 2007, we had approximately 1.7 million square feet of redevelopment space, or approximately 14% of the total space in our portfolio, including five vacant properties comprising approximately 427,000 square feet. Redevelopment space requires significant capital investment in order to develop datacenter facilities that are ready for use, and in addition, we may require additional time or encounter delays in securing tenants for redevelopment space. We intend to purchase additional vacant properties and properties with v