

Digital Realty Trust, Inc.
Form 10-Q
November 10, 2005
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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, 2005

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

560 Mission Street, Suite 2900

San Francisco, CA
(Address of principal executive offices)

26-0081711
(IRS employer
identification number)

94105
(Zip Code)

Registrant's telephone number, including area code (415) 738-6500

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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

<u>Class</u>	<u>Outstanding at November 10, 2005</u>
Common Stock, \$.01 par value per share	27,304,691

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DIGITAL REALTY TRUST, INC.

FORM 10-Q

FOR THE QUARTER ENDED SEPTEMBER 30, 2005

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(in thousands, except share data)

	September 30, 2005	December 31, 2004
	(unaudited)	
ASSETS		
Investments in real estate:		
Land	\$ 184,837	\$ 129,112
Acquired ground lease	1,477	1,477
Buildings and improvements	867,168	613,058
Tenant improvements	119,850	74,745
	<u>1,173,332</u>	<u>818,392</u>
Investments in real estate	1,173,332	818,392
Accumulated depreciation and amortization	(54,256)	(30,980)
	<u>1,119,076</u>	<u>787,412</u>
Net investments in real estate	1,119,076	787,412
Cash and cash equivalents	7,070	4,557
Accounts and other receivables	5,994	3,051
Deferred rent	20,843	12,236
Acquired above market leases, net	50,001	43,947
Acquired in place lease value and deferred leasing costs, net	202,758	136,721
Deferred financing costs, net	8,032	8,236
Restricted cash	29,025	14,207
Other assets	11,423	2,920
	<u>1,454,222</u>	<u>1,013,287</u>
Total Assets	\$ 1,454,222	\$ 1,013,287
LIABILITIES AND STOCKHOLDERS EQUITY		
Notes payable under line of credit	\$ 103,755	\$ 44,000
Mortgage loans	561,154	453,498
Other secured loans	22,000	22,000
Accounts payable and other accrued liabilities	36,900	12,789
Accrued dividends and distributions		8,276
Acquired below market leases, net	58,155	37,390
Security deposits and prepaid rents	10,574	6,276
	<u>792,538</u>	<u>584,229</u>
Total liabilities	792,538	584,229
Commitments and contingencies		
Minority interests in consolidated joint ventures	142	997
Minority interests in operating partnership	268,846	254,862
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	
	60,517	

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Series B Cumulative Redeemable Preferred Stock, 7.875%, \$63,250,000 liquidation preference (\$25.00 per share), 2,530,000 issued and outstanding

Common Stock; \$0.01 par value: 100,000,000 authorized, 27,304,691 and 21,421,300 shares issued and outstanding as of September 30, 2005 and December 31, 2004

	273	214
Additional paid-in capital	252,416	182,411
Dividends in excess of earnings	(21,688)	(9,517)
Accumulated other comprehensive income, net	1,881	91
	<u> </u>	<u> </u>
Total stockholders' equity	392,696	173,199
	<u> </u>	<u> </u>
Total liabilities and stockholders' equity	\$ 1,454,222	\$ 1,013,287
	<u> </u>	<u> </u>

See accompanying notes to the consolidated and combined financial statements.

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DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

(in thousands, except share data)

(unaudited)

	The Company		The Predecessor	
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2005	2004	2005	2004
Revenues:				
Rental	\$ 45,065	\$ 24,666	\$ 115,360	\$ 59,127
Tenant reimbursements	11,040	4,658	25,673	10,055
Other	451	22	4,829	1,734
Total revenues	56,556	29,346	145,862	70,916
Expenses:				
Rental property operating and maintenance	12,385	5,336	29,248	11,625
Property taxes	6,241	2,417	14,832	6,250
Insurance	770	617	1,899	1,179
Interest	10,724	7,926	28,134	15,804
Asset management fees to related party		797		2,389
Depreciation and amortization	16,957	8,604	43,428	20,822
General and administrative	3,324	86	8,190	243
Loss from early extinguishment of debt			125	
Other	106	176	1,588	2,716
Total expenses	50,507	25,959	127,444	61,028
Income before minority interests	6,049	3,387	18,418	9,888
Minority interests in consolidated joint ventures	4	(28)	11	28
Minority interests in operating partnership	(1,628)		(6,930)	
Net income	4,425	3,359	11,499	9,916
Preferred stock dividends	(3,099)		(6,569)	
Net income available to common stockholders	\$ 1,326	\$ 3,359	\$ 4,930	\$ 9,916
Basic income per share available to common stockholders	\$ 0.05	\$	\$ 0.22	\$
Diluted income per share available to common stockholders	\$ 0.05		0.21	

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Weighted average common shares outstanding:		
Basic	25,704,721	22,864,797
Diluted	26,004,324	23,037,992

See accompanying notes to the consolidated and combined financial statements.

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DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(unaudited)

	<u>The Company</u>	<u>The Predecessor</u>	<u>The Company</u>	<u>The Predecessor</u>
	<u>Three months ended</u> <u>September 30,</u>		<u>Nine months ended</u> <u>September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net income	\$ 4,425	\$ 3,359	\$ 11,499	\$ 9,916
Other comprehensive income:				
Foreign currency translation adjustments	19	28	1,186	33
Minority interests in foreign currency translation adjustments	(11)		(705)	
Increase in fair value of interest rate swaps	2,423		2,967	
Minority interests in change in fair value of interest rate swaps	(1,335)		(1,658)	
Comprehensive income	<u>\$ 5,521</u>	<u>\$ 3,387</u>	<u>\$ 13,289</u>	<u>\$ 9,949</u>

See accompanying notes to the consolidated and combined financial statements.

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**DIGITAL REALTY TRUST, INC. AND
DIGITAL REALTY TRUST, INC. PREDECESSOR
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS
(in thousands)**

	<u>The Company</u>	<u>The Predecessor</u>
	<u>Nine Months Ended September 30, 2005</u>	<u>Nine Months Ended September 30, 2004</u>
Cash flows from operating activities:		
Net income	\$ 11,499	\$ 9,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interests in operating partnership	6,930	