Stereotaxis, Inc.
Form POS AM
April 02, 2013
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As filed with the Securities and Exchange Commission on April 1, 2013

Registration No. 333-182053

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Post-Effective Amendment No. 1

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

STEREOTAXIS, INC.

Delaware	94-3120386
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4320 Forest Park Avenue, Suite 100

St. Louis, Missouri 63108

(314) 678-6100

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Karen Witte Duros

Sr. Vice President & General Counsel

4320 Forest Park Avenue, Suite 100

St. Louis, Missouri 63108

(314) 678-6100

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all correspondence to:

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Approximate date of commencement of proposed sale to public: From time to time after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. THE SECURITIES MAY NOT BE SOLD UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

Subject to Completion, dated April 1, 2013

PROSPECTUS

Common Stock, $0.001 par value

Up to 7,474,153 Shares

This prospectus relates to the offer and sale, from time to time, by the selling stockholders named herein of up to 7,474,153 shares of our common stock, which includes (i) up to 4,070,032 shares of our common stock issuable upon conversion of or otherwise underlying our subordinated convertible debentures and (ii) up to 3,404,121 shares of our common stock issuable upon the exercise of warrants to purchase our common stock. This prospectus also covers any additional shares of common stock that may become issuable upon anti-dilution adjustment pursuant to the terms of these debentures warrants by reason of stock splits, stock dividends, or similar events. The debentures and warrants to purchase common stock were acquired by the selling stockholders in a private placement by us that closed on May 10, 2012.

The selling stockholders may sell all or a portion of the shares from time to time at prices which will be determined by the prevailing market price for the shares. We will not receive any proceeds from the sale of the shares by the selling stockholders. We will, however, to the extent the warrants are exercised for cash, as opposed to being exercised on a cashless basis, receive proceeds from such exercises. To the extent we receive such proceeds, they will be used for working capital and general corporate purposes. Please see Selling Stockholders and Plan of Distribution for information about the selling stockholders and the manner of offering of the common stock.

Our common stock is listed on the Nasdaq Global Market under the symbol STXS. On March 28, 2013, the last reported sale price for our common stock on the Nasdaq Global Market was $2.00 per share.

Investing in our common shares involves risks. See Risk Factors beginning on page 4 of this prospectus.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2013.

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PROSPECTUS SUMMARY

This summary highlights selected information about Stereotaxis and a general description of the shares that may be offered for resale by the selling stockholders. This summary is not complete and does not contain all of the information that may be important to you. For a more complete understanding of us and the shares offered by the selling stockholders, you should carefully read this entire prospectus, including the Risk Factors section, any applicable prospectus supplement for these securities and the other documents we refer to and incorporate by reference. In particular, we incorporate important business and financial information into this prospectus by reference. On July 10, 2012, we effected a one-for-ten reverse stock split of our common stock. Unless otherwise indicated, all information set forth herein gives effect to such reverse stock split.

The Company

We design, manufacture and market robotic systems and instruments for use primarily by electrophysiologists for the treatment of abnormal heart rhythms known as cardiac arrhythmias. We offer our proprietary *Epoch* Solution, an advanced remote robotic navigation system for use in a hospital s interventional surgical suite, or interventional lab . We believe the *Epoch* Solution revolutionizes the treatment of arrhythmias and coronary artery disease by enabling enhanced safety, efficiency and efficacy for catheter-based, or interventional, procedures. The *Epoch* Solution is comprised of the *Niobe* ES Robotic Magnetic Navigation System (*Niobe* ES system), *Odyssey* Information Management Solution (*Odyssey* Solution), and the *Vdrive* Robotic Navigation System (*Vdrive* system). We believe that our technology represents an important advance in the ongoing trend toward fully digitized, integrated and automated interventional labs and provides substantial, clinically important improvements over manual interventional methods, which often result in long and unpredictable procedure times with suboptimal therapeutic outcomes. We believe that our technology represents an important advance supporting efficient and effective information management and physician collaboration. The core elements of our technology, especially the *Niobe* ES system, are protected by an extensive patent portfolio, as well as substantial know-how and trade secrets.

Our *Niobe* ES system is the latest generation of the *Niobe* Robotic Magnetic Navigation System (*Niobe* system), which allows physicians to more effectively navigate proprietary catheters, guidewires and other delivery devices, both our own and those we are co-developing through strategic alliances, through the blood vessels and chambers of the heart to treatment sites in order to effect treatment. This is achieved using computer-controlled, externally applied magnetic fields that precisely and directly govern the motion of the internal, or working, tip of the catheter, guidewire or other interventional devices. We believe that our *Niobe* ES system represents a revolutionary technology in the interventional lab, bringing precise remote digital instrument control and programmability to the interventional lab, and has the potential to become the standard of care for a broad range of complex cardiology procedures.

The *Niobe* system is designed primarily for use by interventional electrophysiologists in the treatment of arrhythmias and approximately 1% of usage is by interventional cardiologists in the treatment of coronary artery disease. To date the significant majority of the Stereotaxis installations worldwide are intended for use in electrophysiology. The *Niobe* system is designed to be installed in both new and replacement interventional labs worldwide. Current and potential purchasers of our *Niobe* system include leading research and academic hospitals as well as community and regional medical centers around the world.

The *Niobe* system has been used in more than 55,000 procedures and is supported by more than 200 peer-reviewed publications in leading medical journals such as PACE, Europace, the Journal of the American College of Cardiology and the Journal of Interventional Cardiac Electrophysiology. *Niobe* system revenue represented 26%, 19%, and 40% of revenue for the years ended December 31, 2012, 2011, and 2010, respectively.

Stereotaxis has also developed the *Odyssey* Solution which provides an innovative enterprise solution for integrating, recording and networking interventional lab information within hospitals. The *Odyssey* Solution consists of two lab solutions including *Odyssey* Vision and the *Odyssey Cinema* system. *Odyssey Vision* consolidates all of the lab information from multiple sources, freeing doctors from managing complex interfaces during patient therapy for optimal procedural and clinical efficiency. The *Odyssey Cinema* system is an innovative solution delivering synchronized content targeted to improve care, enhance performance, increase referrals and market services. This tool includes an archiving capability that allows clinicians to store and replay entire procedures or segments of procedures. This information can be accessed from locations throughout the hospital local area network and over the Internet from anywhere with sufficient bandwidth. In order to maximize *Odyssey Cinema* system penetration, in select markets we offer *Odyssey Interface* systems, which connect partner large display solutions to the *Odyssey Cinema* system. The *Odyssey* Solution may be acquired either as part of the *Epoch* Solution or on a stand-alone basis for installation in interventional labs and other locations where clinicians desire improved clinical workflows and related efficiencies. *Odyssey* system revenue represented 14%, 18%, and 18% of revenue for the years ended December 31, 2012, 2011, and 2010, respectively.

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Our *Vdrive* system provides navigation and stability for diagnostic and therapeutic devices designed to improve interventional procedures. The *Vdrive* system complements the *Niobe* ES system control of therapeutic catheters for fully remote procedures and enables single-operator workflow and is sold as two options, the *Vdrive* system and the *Vdrive Duo* system. In addition to the *Vdrive* system and the *Vdrive Duo* system, we also manufacture and market various disposable components (*V-Loop*, *V-Sono*, *V-CAS*, and *V-CAS* Deflect) which can be manipulated by these systems. We have received the CE Mark and regulatory licensing that allows us to market certain configurations of the *Vdrive* system and the *Vdrive Duo* system in Europe and Canada. We are in the process of obtaining the necessary clearance for the *V-Loop* and *V-Sono* devices in the United States.

We promote the full *Epoch* Solution in a typical hospital implementation, subject to regulatory approvals or clearances. The full *Epoch* Solution implementation requires a hospital to agree to an upfront capital payment and recurring payments. The upfront capital payment typically includes equipment and installation charges. The recurring payments typically include disposable costs for each procedure, equipment service costs beyond warranty period, and software licenses. In hospitals where the full *Epoch* Solution has not been implemented, equipment upgrade or expansion can be implemented upon purchasing of the necessary upgrade or expansion.

We incurred net losses of approximately $32.0 million and $9.2 million for the years ended December 31, 2011 and December 31, 2012, respectively, and expect such losses to continue through at least the year ending December 31, 2013. As of December 31, 2012, we had completed the operating expense declines through headcount reductions and discretionary spending cuts. We expect to incur additional losses into 2013 as we continue the development and commercialization of our products, conduct our research and development activities and advance new products into clinical development from our existing research programs and fund additional sales and marketing initiatives. The Company s independent registered public accounting firm s report issued in our Annual Report on Form 10-K included an explanatory paragraph describing the existence of conditions that raise substantial doubt about the Company s ability to continue as a going concern, including recent losses and working capital deficiency. The financial statements do not include any adjustments relating to the recoverability and classification of assets carrying amounts or the amount of and classification of liabilities that may result should the Company be unable to continue as a going concern.

We were incorporated in Delaware in June 1990 as Stereotaxis, Inc. Our principal executive offices are located at 4320 Forest Park Avenue, Suite 100, St. Louis, Missouri 63108, and our telephone number is (314) 678-6100. Our website address is www.stereotaxis.com. Information contained on our website is not incorporated by reference into and does not form any part of this prospectus. As used in this prospectus, references to Company , we , our , us and Stereotaxis refer to Stereotaxis, Inc. unless the context requires otherwise. *Epoch*®, *Niobe*® *Odyssey Cinema* , *Vdrive* , *Vdrive Duo* , *V-CAS* , *V-CAS* Deflect, *V-Loop* , *V-Sono* , *QuikCAS* , *Cardiodrive*®, *CardioAssert*®, *PowerAssert* , *Titan*® and *Pegasus* are trademarks of Stereotaxis, Inc. All other trademarks that may appear in this prospectus are the property of their respective owners.

Selected Financial Data

The following selected consolidated financial data for the years ended December 31, 2012, 2011, 2010, 2009 and 2008 and for the balance sheet data as of December 31, 2012, 2011, 2010, 2009 and 2008 have been derived from, and should be read in conjunction with our financial statements and the accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Reports on Form 10-K. The selected data in this section is not intended to replace the financial statements. Historical results are not indicative of the results to be expected in the future. On July 10, 2012, we effected a one-for-ten reverse stock split of our common stock. All information set forth in the selected consolidated financial data gives effect to such Reverse Stock Split.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Consolidated Statements of Operations Data:					
Revenue	$ 46,562,434	$ 41,987,432	$ 54,051,237	$ 51,149,555	$ 40,365,173
Cost of revenue	14,781,055	12,498,081	15,564,687	17,021,633	14,177,790
Gross margin	31,781,379	29,489,351	38,486,550	34,127,922	26,187,383
Operating costs and expenses:					
Research and development	8,405,086	12,886,488	12,244,163	14,260,854	17,422,828
Sales and marketing	20,607,999	31,635,415	30,178,818	28,694,540	28,660,663
General and administrative	13,394,556	16,908,656	15,022,689	15,010,490	21,121,164
Total operating expenses	42,407,641	61,430,559	57,445,670	57,965,884	67,204,655
Operating loss	(10,626,262)	(31,941,208)	(18,959,120)	(23,837,962)	(41,017,272)
Interest and other income (expense), net [1] [2]	1,387,835	(89,967)	(964,367)	(3,656,495)	(2,868,702)
Net loss	$ (9,238,427)	$ (32,031,175)	$ (19,923,487)	$ (27,494,457)	$ (43,885,974)

					43,885,974
Basic and diluted net loss per common share	$ (1.33)	$ (5.84)	$ (3.94)	$ (6.34)	$ (12.00)
Shares used in computing basic and diluted net loss per common share	6,944,928	5,482,627	5,052,200	4,334,432	3,658,509
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$ 7,777,718	$ 13,954,919	$ 35,248,819	$ 30,546,550	$ 30,355,657
Working capital	(5,715,760)	(6,596,218)	12,395,426	12,878,277	10,097,082
Total assets	32,165,944	39,931,832	65,761,792	56,120,516	59,440,365
Long-term debt, less current maturities	16,824,736	17,290,531	8,000,000	10,346,655	12,036,723
Accumulated deficit	(384,645,873)	(375,407,446)	(343,376,271)	(323,452,784)	(295,958,327)
Total stockholders equity	(18,790,226)	(18,828,895)	10,475,246	7,641,343	4,770,681

(1) Other income recorded in 2010 includes $1.5 million in grants under the Qualifying Therapeutic Discovery Project Program.
(2) Other income recorded in 2012, 2011, 2010, and 2009 includes $8.2 million, $3.4 million, $0.6 million, and $0.9 million in warrant and other mark-to-market adjustments, respectively.

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Securities Being Offered

On May 10, 2012, we sold approximately $8.5 million in aggregate principal amount of unsecured, subordinated, convertible debentures (the Debentures) to the selling stockholders named herein under a Securities Purchase Agreement (the Convertible Debt SPA). The Debentures became convertible into shares of our common stock at a conversion price of $3.361 per share (or 2,521,571 shares in the aggregate), on July 10, 2012, the date we received certain required stockholder approvals. The purchasers of the Debentures also received six-year warrants to purchase 2,521,571 shares of our common stock at an exercise price of $3.361 per share (the Convertible Debt Warrants). In addition, we have the ability to issue shares of our common stock in lieu of cash interest payments under certain circumstances, and are required to do so under the subordination agreement described below until the senior debt to which that agreement relates is repaid in full.

The Debentures bear interest at 8% per year and mature on May 10, 2014. The Company is required to make interest payments in shares of common stock, subject to having an effective registration statement with respect to such shares. The Convertible Debt Warrants became exercisable on the six month and first day anniversary following their issuance, and will remain exercisable until six years after their initial exercise date.

Subject to certain conditions, the Company may require each holder to convert up to 50% of the Debentures if the Common Stock closes above $15.00, or 100% of the Debentures if the Common Stock closes above $20.00 (in each case, as further adjusted for stock splits, recapitalizations and similar events) during a 20 consecutive trading day period and the resale registration statement described below has been declared effective by the SEC and is available for the issuance of the Common Stock upon conversion of the Debentures. In the event of any forced conversion by the Company, the minimum amount that the Company can force the holders to convert is $2.5 million of Debentures in the aggregate.

In connection with the Convertible Debt SPA, the purchasers of the Debentures entered into a subordination agreement with Silicon Valley Bank pursuant to which payments under the Debentures are subordinated in right of payment to all obligations of the Company to Silicon Valley Bank, subject to certain exceptions.

This prospectus is part of a post-effective amendment to a registration statement being filed pursuant to a registration rights agreement entered into with the purchasers of the Convertible Debt SPA (the Convertible Debt Registration Rights Agreement), under which we agreed to register the resale of 135% of the common stock underlying the Debentures and Convertible Debt Warrants, which includes interest shares as described above.

The foregoing description is qualified in its entirety by the terms of the Convertible Debt SPA, Debentures, Convertible Debt Registration Rights Agreement, Subordination Agreement, and Convertible Debt Warrants, the forms of which are incorporated herein by reference.

Other recent transactions

Extension of Silicon Valley Bank Loan and Sanderling/Alafi Credit Support

On March 29, 2013, we and one of our wholly-owned subsidiaries (the Subsidiary) entered into a Fifth Loan Modification Agreement (Domestic), amending the Second Amended and Restated Loan and Security Agreement (Domestic), dated November 11, 2011(the Amended Loan Agreement), with Silicon Valley Bank to extend the maturity of the current working capital line of credit from March 31, 2013 to June 30, 2013. Under the revised facility we are required to maintain, as of the last day of each fiscal quarter, a tangible net worth of ($25 million) as calculated in accordance with a formula set forth in the Loan Agreement. Previously, we had been required to maintain a tangible net worth of ($20 million) as of the last day of each fiscal quarter.

Also in connection with the closing and funding of the above transactions, we and the Subsidiary entered into an Export-Import Bank Fourth Loan Modification Agreement with Silicon Valley Bank (the Ex-Im Modification Agreement) to extend the maturity date of the revolving line of credit under that certain Amended and Restated Export-Import Bank Loan and Security Agreement dated November 30, 2011 from March 31, 2013 to June 30, 2013.

Also in connection with the closing and funding of the above transactions and with the Silicon Valley Bank extension described above, we entered into a further amendment to the Note and Warrant Purchase Agreement dated February 21, 2008, as amended (the Note and Warrant Purchase Agreement), with Alafi Capital Company and affiliates of Sanderling Venture Partners (collectively, the Lenders) to further extend the Lenders obligation to provide $3 million in either direct loans to us or loan guarantees to our primary bank lender through June 30, 2013. The guarantees would terminate earlier if we consummate a third party, non-bank financing of $8 million prior to June 30, 2013. We granted to the Lenders warrants (the 2013 Extension Warrants) to purchase an aggregate of approximately 113,636 shares of common stock in exchange for their extension. The 2013 Extension Warrants have an exercise price of $1.98 per share.

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Sanderling is an affiliate of Fred A. Middleton who is a member of our board of directors. Chris Alafi is affiliated with Alafi Capital Company; Mr. Alafi served on our board through our last annual meeting in August 2012. This facility may also be used by us to guarantee our loan commitments with Silicon Valley Bank, our primary bank lender, through the same extended term.

RISK FACTORS

Investing in our securities involves a high degree of risk. Prior to making a decision about investing in our securities, you should carefully consider the risks described in, or incorporated by reference in, this prospectus, including the risks described below and under the caption Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012, and in any other reports that we file with the SEC, along with the other information included or incorporated by reference in this prospectus, in evaluating an investment in our common stock. The information included or incorporated by reference in this prospectus may be amended, supplemented or superseded from time to time by other reports we file with the SEC in the future. For a description of these reports and documents, and information about where you can find them, see the sections entitled Where You Can Find Additional Information and Incorporation of Certain Documents by Reference in this prospectus.

The risks and uncertainties described in this prospectus and the documents incorporated by reference in this prospectus are not the only ones facing us. Additional risks and uncertainties that we do not presently know about or that we currently believe are not material may also adversely affect our business. If any of the risks and uncertainties described in this prospectus or the documents incorporated by reference herein actually occur, our business, financial condition and results of operations could be adversely affected in a material way. As a result, the trading price of our common stock and/or the value of any other securities we may issue may decline, and you might lose part or all of your investment.

We have recently received a notice from Nasdaq advising that we do not meet the continued listing standards of the Nasdaq Global Market. If we are unable to maintain a listing on a national securities exchange, it could negatively impact the price and liquidity of our common stock and our ability to access the capital markets, and could cause us to be in default under various loan documents.

Our common stock is currently listed on the Nasdaq Global Market. In order to maintain that listing, we must satisfy minimum financial and other requirements. On January 20, 2012, we received notice from the Nasdaq Listing Qualifications Department that our common stock had not met the $1.00 per share minimum bid price requirement for 30 consecutive business days and that, if we were unable to demonstrate compliance with this requirement during the applicable grace periods, our common stock would be subject to delisting after that time. Because the closing bid price of our common stock on the Nasdaq Global Market had been below $1.00 each trading day since December 6, 2011, through July 10, 2012, we implemented the Reverse Stock Split of one-for-ten on July 10 following shareholder approval of that action in order to put our stock in compliance with the minimum bid price requirement. On July 25, 2012, we received notice that we regained compliance with the minimum bid price requirement. In addition, on June 25, 2012, Nasdaq notified us that we did not comply with the rule regarding market value of publicly held shares. On January 9, 2013, we received notification from Nasdaq that we had regained compliance with the minimum market value of publicly held shares requirement.

On March 20, 2013, we received a notification from the Nasdaq Listing Qualifications Department that we are not in compliance with the $50.0 million in total assets and total revenues requirement for our most recently completed fiscal year or for two of the last three most recently completed fiscal years as required by Nasdaq Listing Rule 5450(b)(3)(A). In addition, the Nasdaq letter stated that we do not comply with an alternative requirement of Listing Rule 5450(b) for continued listing on the Nasdaq Global Market because our stockholders equity is less than $10.0 million and the market value of our listed securities is less than $50.0 million. In the notice, Nasdaq stated that we may provide a plan to regain compliance with the continued listing requirements of the Nasdaq Global Market by May 6, 2013. If Nasdaq accepts the plan, it can grant an extension of up to 180 calendar days from the date of the letter (that is, through September 16, 2013) to evidence compliance. We intend to submit a compliance plan with Nasdaq on or before May 6, 2013.

There is no assurance that Nasdaq will approve our compliance plan and we are not currently eligible to transfer our listing to the Nasdaq Capital Market since we do not satisfy all applicable requirements for continued listing on that market at this time. Even if we are granted additional time to regain compliance with the Nasdaq Global Market listing standards, there can be no assurance that we will be able to evidence compliance by September 16, 2013. If the Nasdaq Staff does not accept our compliance plan, or if they accept our compliance plan and we are not able to achieve compliance by the established deadline, then the Nasdaq Staff would issue a delisting letter. We would at that point be afforded the right to a hearing before an independent Nasdaq Listing

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Qualifications Panel (the Panel). If we requested a hearing, the delisting action would be stayed until the conclusion of the hearing process and the expiration of any extension granted by the Panel. At that hearing, we could seek a further extension on the Nasdaq Global Market or a transfer to the Nasdaq Capital Market, pending our achievement of compliance with the applicable requirements for continued listing. If our common stock is delisted from the Nasdaq Stock Market, we anticipate that our common stock will be immediately eligible for quotation on the OTCQB Market. Any delisting could adversely affect the market liquidity of our common stock, adversely affect our ability to obtain financing for the continuation of our operations and harm our business. Moreover, if we are not listed on an eligible market, under the terms of our convertible debt, we would be in default under the terms of our debenture, and because of cross-default provisions, we would be in default under our other principal debt obligations. In addition, receipt of a deficiency notice from Nasdaq with respect to our ongoing compliance with the Nasdaq Global Market continued listing standards could also result in other negative implications, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest and fewer business development opportunities. Any of such developments as a result of the foregoing could impair the value of your investment.

We may not be able to comply with debt covenants and may have to repay outstanding indebtedness.

We have financed our operations through equity and convertible debt transactions, a financing of our catheter royalty stream under the Healthcare Royalty Partners facility entered into in November 2011, as well as bank and other borrowings. We recently extended our revolving line of credit, which matures on June 30, 2013, and our Debentures mature on May 10, 2014. In addition, our current convertible debt and other borrowing agreements contain various covenants, including financial covenants under our Silicon Valley Bank line. The covenants in these various agreements are similar, but are not identical in all respects. If we violate our covenants, we could be required to repay the indebtedness as to which that default relates. In addition, as a result of various cross-default provisions in these agreements, a violation of the covenants under one or more of such agreements could trigger our obligation to repay all of our existing indebtedness. We could be unable to make these payments, which could lead to insolvency. Even if we are able to make these payments, it will lead to the lack of availability for additional borrowings under our bank loan agreement due to our borrowing capacity. There can be no assurance that we will be able to maintain compliance with these covenants or that we could replace this source of liquidity if these covenants were to be violated and our loans and other borrowed amounts were forced to be repaid.

We are no longer eligible to use Form S-3, which could impair our capital raising activities.

As of the date of this prospectus, we are not eligible to use Form S-3 as a result of our payment default in 2012 under our facility with Silicon Valley Bank. As a result, we cannot use Form S-3 to register resales of our securities for 12 months following our default, which occurred on April 30, 2012. In addition, we are limited in our ability to file new shelf registration statements on SEC Form S-3 and/or to fully use the remaining capacity on our existing registration statements on SEC Form S-3. Moreover, our public float is below $75 million and may remain below $75 million for the foreseeable future. As a result, we may not be eligible to use Form S-3 for primary offerings even though we otherwise would regain the ability to use the form for resale registration statements 12 months following our payment default. We have relied significantly on shelf registration statements on SEC Form S-3 for most of our financings in recent years, and accordingly any such limitations may harm our ability to raise the capital we need. Under these circumstances, until we are again eligible to use Form S-3, we will be required to use a registration statement on Form S-1 to register securities with the SEC or issue such securities in a private placement, which could increase the cost of raising capital.

Our principal stockholders continue to own a large percentage of our voting stock, and they have the ability to substantially influence matters requiring stockholder approval.

Our executive officers, directors and individuals or entities affiliated with them beneficially own or control a substantial percentage of the outstanding shares of our common stock. Moreover, following approval of the Stockholder Approval Matters, certain of our directors and their affiliated funds have the ability to obtain a substantial portion of our common stock. Accordingly, these executive officers, directors and their affiliates, acting as a group, will have substantial influence over the outcome of corporate actions requiring stockholder approval, including the election of directors, any merger, consolidation or sale of all or substantially all of our assets or any other significant corporate transaction. These stockholders may also delay or prevent a change of control, even if such a change of control would benefit our other stockholders. This significant concentration of stock ownership may adversely affect the trading price of our common stock due to investors perception that conflicts of interest may exist or arise.

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Future issuances of our securities could dilute current stockholders ownership.

Up to 4,070,032 shares of our common stock are issuable upon conversion of, or otherwise underlying, the Debentures and up to 3,404,121 shares of our common stock issuable upon exercise of the Convertible Debt Warrants held by the selling stockholders identified in this prospectus, which represents 135% of the common stock underlying such Debentures and Convertible Debt Warrants. In addition, in 2012 we filed registration statements relating to the resale of up to 650,618 and 1,518,109 shares of stock, respectively, issuable on exercise of the certain warrants issued in connection with a PIPE transaction entered into in May 2012, as well as an additional 517,422 shares issuable in connection with amendments two through six of the Note and Warrant Purchase Agreement issued to Alafi Capital Company and the Sanderling Venture Partners affiliates. The exercise price of most of these securities (including all of the Debentures, the Convertible Debt Warrants and all of the PIPE Warrants) is $3.361. In July 2012, we increased the authorized number of shares of our common stock from 100,000,000 to 300,000,000. In addition, we recently issued warrants to purchase an additional 113,636 shares of our common stock Alafi Capital Company and the Sanderling Venture Partners affiliates in connection with the further extension of their guarantees of our revolving credit facility in March 2013. A significant number of shares of our common stock are subject to stock options and stock appreciation rights, and we may request the ability to issue additional such securities to our employees. We may also decide to raise additional funds through public or private debt or equity financing to fund our operations. While we cannot predict the effect, if any, that future sales of debt, our common stock, other equity securities or securities convertible into our common stock or other equity securities or the availability of any of the foregoing for future sale, will have on the market price of our common stock, it is likely that sales of substantial amounts of our common stock (including shares issued upon the exercise of stock options, stock appreciation rights or the conversion of any convertible securities outstanding now or in the future), or the perception that such sales could occur, will adversely affect prevailing market prices for our common stock.

FORWARD-LOOKING STATEMENTS

The prospectus contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1985. These statements relate to, among other things:

- our business strategy;
- our value proposition;
- our ability to fund operations;
- our ability to convert backlog to revenue;
- the ability of physicians to perform certain medical procedures with our products safely, effectively and efficiently;
- the adoption of our products by hospitals and physicians;
- the market opportunity for our products, including expected demand for our products;
- the timing and prospects for regulatory approval of our additional disposable interventional devices;
- the success of our business partnerships and strategic alliances;

our estimates regarding our capital requirements;

our plans for hiring additional personnel; and

any of our other plans, objectives, expectations and intentions contained or incorporated into this prospectus that are not historical facts.

These statements relate to future events or future financial performance, and involve known and unknown risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as may , will , should , could , expects , plans , intends , anticipates , believes , estim potential , or continue , or the negative of such terms or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. These statements are only predictions.

Factors that may cause our actual results to differ materially from our forward-looking statements include, among others, changes in general economic and business conditions and the risks and other factors set forth in Item 1A Risk Factors and elsewhere in our Annual Report on Form 10-K for the year ended December 31, 2012.

Our actual results may be materially different from what we expect. We undertake no duty to update these forward-looking statements after the date of this prospectus, even though our situation may change in the future. We qualify all of our forward-looking statements by these cautionary statements.

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USE OF PROCEEDS

We will not receive any proceeds from the selling stockholders sales of our common stock. We could receive up to a maximum of approximately $8,475,000 in proceeds from the cash exercise of all the Convertible Debt Warrants held by the selling stockholders and covered by this prospectus, which proceeds would be used for working capital and general corporate purposes. As of the date hereof, none of the Convertible Debt Warrants have been exercised.

SELLING STOCKHOLDERS

The shares of common stock being offered by the selling stockholders are those issuable to the selling stockholders upon conversion of the Debentures and exercise of the Convertible Debt Warrants. For additional information regarding the issuance of the Debentures and the Convertible Debt Warrants, see Prospectus Summary Securities Being Offered above. We are registering the shares of common stock in order to permit the selling stockholders to offer the shares for resale from time to time. Except for the ownership of the Debentures and the Convertible Debt Warrants issued pursuant to the Securities Purchase Agreement, the selling stockholders have not had any material relationship with us within the past three years.

The table below lists the selling stockholders and other information regarding the beneficial ownership (as determined under Section 13(d) of the Securities Exchange Act of 1934, as amended, and the rules and regulations thereunder) of the shares of common stock held by each of the selling stockholders. The second column lists the number of shares of common stock known to us to be beneficially owned by the selling stockholders, based on their respective ownership of shares of common stock, Debentures and Convertible Debt Warrants, as of the most recent date practicable for each selling stockholder, assuming conversion of the Debentures and exercise of the Convertible Debt Warrants held by each such selling stockholder on that date but taking account of any limitations on conversion and exercise set forth therein. We had 8,063,239 shares outstanding as of February 28, 2013.

The third column lists the shares of common stock being offered by this prospectus by the selling stockholders and does not take in account any limitations on (i) conversion of the Debentures set forth therein or (ii) exercise of the Convertible Debt Warrants set forth therein.

In accordance with the terms of a registration rights agreement with the holders of the Debentures and the Convertible Debt Warrants, this prospectus generally covers the resale of 135% of the sum of (i) the maximum number of shares of common stock issuable upon conversion of the Debentures, (ii) the maximum number of other shares of common stock issuable pursuant to the Debentures and (iii) the maximum number of shares of common stock issuable upon exercise of the Convertible Debt Warrants, in each case, determined as if the outstanding Debentures and Convertible Debt Warrants were converted or exercised (as the case may be) in full (without regard to any limitations on conversion or exercise contained therein) as of June 10, 2012, the trading day immediately preceding the date this registration statement was initially filed with the SEC. Because the conversion price of the Debentures and the exercise price of the Convertible Debt Warrants may be adjusted, the number of shares that will actually be issued may be more or less than the number of shares being offered by this prospectus. The fourth column assumes the sale of all of the shares offered by the selling stockholders pursuant to this prospectus.

Under the terms of the Debentures and the Convertible Debt Warrants, a selling stockholder may not convert the Debentures or exercise the Convertible Debt Warrants to the extent (but only to the extent) such selling stockholder or any of its affiliates would beneficially own a number of shares of our common stock which would exceed various percentages for each investor, but in no case above 9.99%. The number of shares in the second column reflects these limitations. The selling stockholders may sell all, some or none of their shares in this offering. See Plan of Distribution.

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elling Stockholder	Number of Shares Beneficially Owned Prior to the Offering (1)		Maximum Number of Shares Offered by This Prospectus	Shares Beneficia Owned Subsequent to the Offering (Shares	Perce
DAFNA ifeScience Ltd(2)		420,363(3)	1,058,287	28,502	*
DAFNA ifeScience Market Neutral td(4)		421,295(5)	749,620	19,795	*
DAFNA ifeScience Select td(6)		419,522(7)	1,278,764	38,040	*
rescott Group ggressive Small ap Master Fund, .P.(8)					

&nntive awards and performance bonus awards under the 2004 Incentive Award Plan. Only employees of the Company and its qualifying corporate subsidiaries are eligible to be granted options that are intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code. As of December 31, 2006, we had 109 employees worldwide and our board of directors consisted of four non-employee directors who were eligible to participate in the 2004 Incentive Award Plan.

Administration

With respect to stock option grants and other awards granted to our independent directors, the 2004 Incentive Award Plan is administered by our board of directors. With respect to all other awards, the 2004 Incentive Award Plan is administered by the Compensation Committee or another committee designated by the Board. Each member of the committee that administers the 2004 Incentive Award Plan will be both a non-employee director within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934 and an outside director within the meaning of Section 162(m) of the Internal Revenue Code. The 2004 Incentive Award Plan provides that the plan administrator has the authority to designate recipients of awards and to determine the terms and provisions of awards, including the exercise or purchase price, expiration date, vesting schedule and terms of exercise.

Adjustments and Corporate Transactions

In the event of certain corporate transactions and changes in our corporate structure or capitalization, the plan administrator will make appropriate adjustments to (i) the aggregate number and type of shares issuable under the 2004 Incentive Award Plan, (ii) the terms and conditions of any outstanding awards, including the number and type of shares issuable thereunder, and (iii) the grant or exercise price of each outstanding award. In addition, except as may be provided in an individual award agreement, in the event of a change in control (as defined in the 2004 Incentive Award Plan), each outstanding award which is not converted, assumed or replaced by the successor corporation will become exercisable in full and all forfeiture restrictions on such awards will lapse. The plan administrator also has the authority under the 2004 Incentive Award Plan to take certain other actions with respect to outstanding awards in the event of a corporate transaction, including provision for the cash-out, termination, assumption or substitution of such awards.

Termination and Amendment

With the approval of our board of directors, the plan administrator may at any time terminate, amend or modify the 2004 Incentive Award Plan, provided that to the extent necessary and desirable to comply with any applicable law, regulation, or stock exchange rule, we must obtain stockholder approval of any amendment in such a manner and to such a degree as required, and without the approval of our stockholders, no amendment may increase the maximum number of shares issuable under the 2004 Incentive Award Plan, permit the plan administrator to grant options or stock appreciation rights with an exercise price that is below the fair market value on the date of grant, or permit the plan administrator to extend the exercise period for an option or stock appreciation right beyond ten years from the date of grant. In addition, no stock option or stock appreciation right may be amended to reduce the exercise price of the shares subject thereto below the exercise price on the date on which the stock option or stock appreciation right is granted, and, subject to the 2004 Incentive Award Plan s adjustment provisions, no stock option or stock appreciation right may be granted in connection with the cancellation or surrender of any stock option or stock appreciation right having a higher per share exercise price. Any termination, amendment or modification of the 2004 Incentive Award Plan which materially adversely affects any outstanding award requires the prior written consent of the affected holder. Unless sooner terminated by our board of directors, the 2004 Incentive Award Plan will automatically terminate on the tenth anniversary of the date that it was originally adopted by our board of directors. No award may be granted under the 2004 Incentive Award Plan after its termination, but awards that are outstanding at such time will remain in effect. The 2004 Incentive Award Plan was originally adopted by our board of directors on July 31, 2004. The amended and restated 2004 Incentive Award Plan will become effective if and when it is approved by our stockholders.

Additional Restrictions on Awards

The 2004 Incentive Award Plan provides that no participant in the 2004 Incentive Award Plan will be permitted to acquire, or will have any right to acquire, shares thereunder if such acquisition would be prohibited by the stock ownership limits contained in our charter or would impair our status as a REIT.

Federal Income Tax Consequences

The federal income tax consequences of the 2004 Incentive Award Plan under current federal income tax law are summarized in the following discussion which deals with the general tax principles applicable to the 2004 Incentive Award Plan, and is intended for general information only. The following discussion of federal income tax consequences does not purport to be a complete analysis of all of the potential tax effects of the 2004 Incentive Award Plan. It is based upon laws, regulations, rulings and decisions now in effect, all of which are subject to change. Foreign, state and local tax laws, and estate and gift tax considerations are not discussed, and may vary depending on individual circumstances and from locality to locality.

Stock Options

With respect to nonqualified stock options, the Company, our operating partnership or the participant s employer, as applicable, is generally entitled to deduct, and the optionee recognizes taxable income in an amount equal to, the difference between the option exercise price and the fair market value of the shares at the time of exercise. A participant receiving incentive stock options will not recognize taxable income upon grant. Additionally, if applicable holding period requirements are met, the participant will not recognize taxable income at the time of exercise. However, the excess of the fair market value of the shares received over the option exercise price is an item of tax preference income potentially subject to the alternative minimum tax. If stock acquired upon exercise of an incentive stock option is held for a minimum of two years from the date of grant and one year from the date of exercise, the gain or loss (in an amount equal to the difference between the fair market value on the date of sale and the exercise price) upon disposition of the stock will be treated as a long-term capital gain or loss, and the Company, our operating partnership or the participant s employer, as applicable, will not be entitled to any deduction. If the holding period requirements are not met, the incentive stock option will be treated as an option which does not meet the requirements of the Internal Revenue Code for incentive stock options and the tax consequences described for nonqualified stock options will apply.

Other Awards

The current federal income tax consequences of other awards authorized under the 2004 Incentive Award Plan generally follow certain basic patterns: SARs are taxed and deductible in substantially the same manner as nonqualified stock options; nontransferable restricted stock subject to a substantial risk of forfeiture results in income recognition equal to the excess of the fair market value over the price paid, if any, only at the time the restrictions lapse (unless the recipient elects to accelerate recognition as of the date of grant); stock-based performance awards, dividend equivalents and other types of awards are generally subject to tax at the time of payment. Compensation otherwise effectively deferred is taxed when paid. In each of the foregoing cases, the Company, our operating partnership or the participant s employer, as applicable, will generally have a corresponding deduction at the time the participant recognizes income, subject to Section 162(m) of the Internal Revenue Code with respect to covered employees.

Long-Term Incentive Units

Long-term incentive units that constitute profits interests within the meaning of the Internal Revenue Code and published Internal Revenue Service guidance will generally not be taxed at the time of grant, though the holder will be required to report on his income tax return his allocable share of the issuing partnership s income, gain, loss, deduction, and credit, regardless of whether the issuing partnership makes a distribution of cash. Instead, such units are generally taxed upon a disposition of the unit or distributions of money to the extent that such amounts received exceed the basis in the units. Generally, no deduction is available to the Company upon the grant, vesting or disposition of the long-term incentive units.

If long-term incentive units are granted to a recipient who is an employee of the Company, the issuance of those units may cause wages paid to the recipient to be characterized and subject to taxation as self-employment income. If treated as a self-employed partner, the recipient will be required to make quarterly income tax

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payments rather than having amounts withheld by the Company, our operating partnership or the participant s employer, as applicable. Additionally, if self-employed, the recipient must pay the full amount of all FICA employment taxes on the employee s compensation, whereas regular employees are only responsible for 50% of these taxes. To date, the Internal Revenue Service has not issued definitive guidance regarding the treatment of wages paid to partner-employees.

Code Section 409A

Certain types of awards under the 2004 Incentive Award Plan may constitute, or provide for, a deferral of compensation under Section 409A of the Internal Revenue Code. Unless certain requirements set forth in Section 409A are complied with, holders of such awards may be taxed earlier than would otherwise be the case (e.g., at the time of vesting instead of the time of payment) and may be subject to an additional 20% penalty tax (and, potentially, certain interest penalties). To the extent applicable, the 2004 Incentive Award Plan and awards granted under the 2004 Incentive Award Plan will be structured and interpreted to comply with Section 409A and the Department of Treasury regulations and other interpretive guidance that may be issued pursuant to Section 409A.

Tax Deductibility and Section 162(m) of the Code

Section 162(m) of the Internal Revenue Code generally places a $1 million annual limit on the amount of compensation paid to each of the Company s named executive officers that may be deducted by the Company for federal income tax purposes unless such compensation constitutes qualified performance-based compensation which is based on the achievement of pre-established performance goals set by a committee of the board of directors pursuant to an incentive plan that has been approved by the Company s stockholders. The 2004 Incentive Award Plan provides that certain awards made thereunder may, in the discretion of the plan administrator, be structured so as to qualify for the qualified performance-based compensation exception to the $1 million annual deductibility limit of Section 162(m).

Other Considerations

Awards that are granted, accelerated or enhanced upon the occurrence of a change in control may give rise, in whole or in part, to excess parachute payments within the meaning of Section 280G of the Internal Revenue Code to the extent that such payments, when aggregated with other payments subject to Section 280G, exceed the limitations contained in that provision. Such excess parachute payments are not deductible by the Company and are subject to an excise tax of 20 percent payable by the recipient.

The 2004 Incentive Award Plan is not subject to any provision of the Employee Retirement Income Security Act of 1974, as amended, and is not qualified under Section 401(a) of the Internal Revenue Code. Special rules may apply to a participant who is subject to Section 16 of the Exchange Act. Certain additional special rules apply if the exercise price for an option is paid in stock previously owned by the participant rather than in cash.

Plan Benefits

No awards will be granted pursuant to the amended and restated 2004 Incentive Award Plan until it is approved by the Company s stockholders. In addition, awards are subject to the discretion of the plan administrator. As of March 30, 2007, no determination has been made as to the types or amounts of awards that will be granted to specific individuals pursuant to the amended and restated 2004 Incentive Award Plan. Therefore, it is not possible to determine the benefits that will be received in the future by participants in the 2004 Incentive Award Plan. See the Summary Compensation Table and Outstanding Equity Awards at Fiscal Year-End and Option Exercises and Stock Vested tables, below, for information on prior awards to our individual named executive officers. During 2006, awards with respect to 30,805 shares or units were granted to all of our executive officers as a group and awards with respect to 200,000 shares or units were granted to our

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other employees under the 2004 Incentive Award Plan. No awards were granted to our non-employee directors or named executive officers under the 2004 Incentive Award Plan in 2006, but our non-employee directors will be entitled to receive future grants of long-term incentive units under the 2004 Incentive Award Plan as described above.

Vote Required

The affirmative vote of a majority of the votes cast at the Annual Meeting is required to approve the amendment and restatement of the 2004 Incentive Award Plan, provided that the total votes cast on the proposal represents over 50% in interest of the outstanding shares of common stock entitled to vote on the proposal.

OUR BOARD OF DIRECTORS RECOMMENDS A VOTE FOR APPROVAL OF THE AMENDED AND RESTATED 2004 INCENTIVE AWARD PLAN OF THE COMPANY.

PRINCIPAL STOCKHOLDERS

The following table sets forth as of March 15, 2007 the beneficial ownership of shares of our Common Stock and shares of Common Stock into which units of limited partnership (units) in Digital Realty Trust, L.P., a Maryland limited partnership (our operating partnership), of which we are the sole general partner, are exchangeable for (i) each person who is the beneficial owner of 5% or more of the outstanding Common Stock and units, (ii) directors and named executive officers, and (iii) all directors and executive officers as a group. Each person named in the table has sole voting and investment power with respect to all of the shares of our Common Stock and units shown as beneficially owned by such person, except as otherwise set forth in the notes to the table. The extent to which a person holds shares of Common Stock as opposed to units is set forth in the footnotes below. Unless otherwise indicated, the address of each named person is care of Digital Realty Trust, Inc., 560 Mission Street, Suite 2900, San Francisco, California 94105.

Name of Beneficial Owner	Number of Shares and Units Beneficially Owned	Percent of All Shares[1]	Percent of All Shares and Units[2]
Deutsche Bank AG[3]	7,337,410	12.2%	10.8%
Cambay Tele.com, LLC and Wave Exchange, LLC[4]	4,660,157	7.2%	6.9%
Richard A. Magnuson[5]	1,173,613	1.9%	1.7%
Michael F. Foust[6]	315,421	*	*
Laurence A. Chapman	44,448	*	*
Kathleen Earley	6,448	*	*
Ruann F. Ernst	6,448	*	*
Dennis E. Singleton	6,448	*	*
A. William Stein[7]	164,654	*	*
Scott E. Peterson[8]	125,384	*	*
Christopher J. Crosby, Jr. [9]	31,944	*	*
All directors and executive officers as a group (13 persons)	1,920,218	3.1%	2.8%

* Less than 1%.

(1) Based on 60,181,740 shares of our Common Stock outstanding as of March 15, 2007. In addition, amounts listed for each individual assume that all units, including vested and unvested long-term incentive units, beneficially owned by such individual are exchanged for shares of our Common Stock, and amounts for all directors and officers as a group assume all vested and unvested long-term incentive units held by them are exchanged for shares of our Common Stock, but none of the units held by other persons are exchanged for shares of our Common Stock.

(2) Based on a total of 67,920,655 shares of Common Stock and units, including vested long-term incentive units, outstanding as of March 15, 2007, comprising 60,181,740 shares of Common Stock and 7,738,915 units which may be exchanged for cash or shares of Common Stock under certain circumstances.

(3) Based solely on information contained in a Schedule 13G filed by Deutsche Bank AG, RREEF America, L.L.C., Deutsche Bank Trust Company Americas and Deutsche Asset Management Inc. with the U.S. Securities and Exchange Commission on January 31, 2007. The address of Deutsche Bank AG is Taunusanlage 12, D-60325, Frankfurt am Main, Federal Republic of Germany. Deutsche Bank AG has sole voting power with respect to 3,442,567 shares, shared voting power with respect to zero shares, sole dispositive power with respect to 7,337,410 shares and shared dispositive power with respect to zero shares. RREEF America, L.L.C. has sole voting power with respect to 3,368,817 shares, shared voting power with respect to zero shares, sole dispositive power with respect to 7,255,460 shares and shared dispositive power with respect to zero shares. Deutsche Bank Trust Company Americas has sole or shared voting power with respect to zero shares, sole dispositive power with respect to 5,100 shares and shared dispositive power with respect to zero shares. Deutsche Asset Management, Inc. has sole voting power with respect to 73,750 shares, shared voting power with respect to zero shares, sole dispositive power with respect to 76,850 shares and shared

dispositive power with respect to zero shares.

(4) Reflects the number of units that are owned by Cambay Tele.com, LLC and Wave Exchange, LLC, which are managed by a single management committee. The inclusion of Cambay Tele.com, LLC and Wave Exchange, LLC in the table above shall not be deemed to be an admission that such entities or their members are, for purposes of Section 13 or Section 16 of the Securities Exchange Act of 1934 or the rules and regulations thereunder, the beneficial owners of the shares that may be received by any of them upon exchange of their units. The address of Cambay Tele.com, LLC and Wave Exchange, LLC is care of The Cambay Group, Inc., 2999 Oak Road, Suite 400, Walnut Creek, California 94957.

(5) Includes 808,149 vested long-term incentive units, 302,833 limited partnership units, and 62,631 stock options to purchase shares of our Common Stock, but excludes class C units.

(6) Includes 287,644 vested and 27,777 unvested long-term incentive units, but excludes class C units.

(7) Includes 148,782 vested and 15,872 unvested long-term incentive units, but excludes class C units.

(8) Includes 111,495 vested and 13,889 unvested long-term incentive units, but excludes class C units.

(9) Includes 19,841 vested and 7,936 unvested long-term incentive units and 4,167 stock options to purchase shares of our Common Stock, but excludes class C units.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Our Executive Compensation Program

Objectives of Our Executive Compensation Program

The Compensation Committee is responsible for establishing, modifying and approving the compensation program for our executive officers. The objective of our executive compensation program is to attract, retain and motivate talented executives who can help maximize stockholder value. We believe that a significant portion of the compensation paid to executive officers should be closely aligned with our performance on both a short-term and long-term basis. In order to achieve this objective, in addition to annual base salaries, the executive compensation program uses a combination of annual incentives through cash bonuses and long-term incentives through equity-based compensation. We use equity-based awards as long-term incentives because we view our overall, company-wide performance and growth as the relevant long-term metric, while our annual cash awards can be targeted to reward the attainment of narrower, short-term performance objectives. The program is intended to encourage high performance, promote accountability and ensure that the interests of the executives are aligned with the interests of our stockholders by linking a significant portion of executive compensation directly to increases in stockholder value. We seek to provide total compensation to our executive officers that is comparable to total compensation paid by comparable REITs and other real estate companies in our peer group, as discussed in more detail below.

The following are our principal objectives in establishing compensation for executive officers:

- Attract and retain individuals of superior ability and managerial talent;
- Ensure that executive officer compensation is aligned with our corporate strategies, business objectives and the long-term interests of our stockholders;
- Increase the incentive to achieve key strategic and financial performance measures by linking incentive award opportunities to the achievement of performance goals in these areas; and
- Enhance the officers incentive to increase our stock price and maximize stockholder value, as well as promote retention of key executives, by providing a portion of total compensation opportunities for senior management in the form of direct ownership in our Company through equity awards, including awards of long-term incentive units in our operating partnership.

Throughout this proxy statement, the individuals who served as our Chief Executive Officer and Chief Financial Officer, as well as the three other most highly compensated executive officers for the year ended December 31, 2006, including our Chairman, are referred to as the named executive officers.

Elements of Compensation

The major elements of compensation for our executive officers are (1) a base salary, intended to provide a stable annual income for each executive officer at a level consistent with such officer s individual contributions, (2) annual cash performance bonuses, intended to link each executive officer s compensation to our performance and to such officer s performance and (3) long-term compensation, which includes grants of long-term incentive units in our operating partnership and other equity based compensation intended to encourage actions to maximize stockholder value. Each of these elements is discussed in more detail below.

Our named executive officers are also entitled to certain benefits upon a change in control of the Company, including that all unvested long-term incentive units and stock options held by them will become fully vested and exercisable upon a change in control. In addition, the employment agreements of Messrs. Peterson and Crosby provide severance benefits in connection with a change in control. We provide these benefits to our named executive officers in order to give them the personal security and stability necessary for them to focus on the performance of their duties and responsibilities to us. These items are described below under Potential Payments upon Termination or Change in Control.

We believe that each of these elements plays an important role in our overall executive compensation program and together serve to achieve our compensation objectives. The Compensation Committee allocates total compensation between the cash components and equity compensation based on review of the practices of our peer group, while considering the balance among providing stability, short-term incentives and long-term incentives to align the interests of management with our stockholders. The percentage salary and cash bonus (including annual cash incentive awards paid under our 2004 Incentive Award Plan) to total compensation ranged from 59.7% to 78.1% for our named executive officers and is set forth for each named executive officer in footnote 6 to our Summary Compensation Table below.

Determination of Compensation Awards

The Compensation Committee annually reviews and determines the total compensation to be paid to our named executive officers. Our Chairman and our Chief Executive Officer, after reviewing competitive market data and advice from compensation consultants engaged by the Compensation Committee and the Company, make recommendations regarding the compensation packages to be made to the officers (other than themselves). The Compensation Committee in its review of these recommendations and in establishing the total compensation for each of our named executive officers considered several factors, including each executive s roles and responsibilities, each executive s performance and achievement of individual goals established for such executive, any significant accomplishments of the executive, our financial and operating performance, and the competitive market data applicable to each executive s position and functional responsibilities.

Competitive Market Data and Compensation Consultant

In September 2005, the Compensation Committee conducted reviews of the salary, bonus and equity compensation paid to our named executive officers, including our Chairman and our Chief Executive Officer, and in February 2007, the Compensation Committee conducted reviews of the salary, bonus and equity compensation paid to our named executive officers and directors. In conducting these reviews, the Compensation Committee retained the services of SMG Advisory Group LLC, an independent real estate advisory services company with expertise in providing consulting services to companies in the REIT industry. SMG Advisory Group LLC also provides additional professional services to our Company and receives market-based compensation with respect to these services.

For its consulting services in September 2005 and February 2007, the compensation consultant was instructed to review the Company s existing compensation program and employment agreements, provide current data with regard to industry trends, provide information regarding long-term compensation plan alternatives, identify a peer group and provide cash and equity incentive award information for the peer group, and to develop comprehensive recommendations and a detailed plan as to the design and implementation of an executive compensation program. In February 2007, the compensation consultant was also instructed to conduct an analysis of a competitive peer group of independent directors and make recommendations regarding appropriate compensation for our independent directors.

The Compensation Committee reviewed the compensation of our named executive officers in 2005, and our named executive officers and directors in 2007, as compared to a peer group and published survey data as prepared by the compensation consultant.

Benchmarking to Our Peer Group

The Compensation Committee believes it is important to provide total cash and long-term compensation levels that are at or near the fiftieth percentile of our peer group companies in order to attract and motivate qualified executives in this important period of our growth while rewarding for performance based on corporate objectives. Actual pay for each executive officer may vary from these targets based on several factors including an officer s experience level, tenure with the Company, the competitive market data applicable to each executive s position and functional responsibilities, the performance of the executive officer and our annual and long-term performance.

The peer group used to determine the appropriateness of our 2006 base salaries, bonus targets and long-term equity awards consisted of the following 18 companies: Alexandria Real Estate Equities, Inc., American Financial Realty Trust, Arden Realty Group, Inc., Bedford Property Investors, Inc., Brandywine Realty Trust, Catellus Development Corporation, Corporate Office Properties Trust Inc., Crescent Real Estate Equities Company, First Potomac Realty Trust, Lexington Corporate Properties Trust, Maguire Properties, Inc., Parkway Properties, Inc., Pennsylvania Real Estate Investment Trust, PS Business Parks, Inc., SL Green Realty Corp., Spirit Finance Corporation, Trizec Properties, Inc. and Washington Real Estate Investment Trust. In determining our Chairman s compensation, the following companies from our peer group were omitted due to a lack of comparable position for 2006: Alexandria Real Estate Equities, Inc., American Financial Realty Trust, Bedford Property Investors, Inc., Brandywine Realty Trust, Corporate Office Properties Trust Inc., Crescent Real Estate Equities Company, First Potomac Realty Trust, Parkway Properties, Inc. and PS Business Parks, Inc.

In order to determine the appropriateness of 2007 base salaries, bonus targets and long-term incentive awards, we adjusted our 2006 peer group by replacing Bedford Property Investors, Inc., Catellus Development Corporation and American Financial Realty Trust with BioMed Realty Trust, Global Signal, Inc. and Rayonier, Inc. Bedford Property Investors, Inc. and Catellus Development Corporation were removed because they ceased to be publicly traded companies and American Financial Realty Trust was removed due to meaningful changes in executive personnel midway through the year. The three replacement companies were chosen on the advice of our compensation consultant as companies that most closely fit our peer group criteria. In determining our Chairman s compensation, the following companies from our peer group were omitted due to a lack of comparable position for 2007: Alexandria Real Estate Equities, Inc., Brandywine Realty Trust, Corporate Office Properties Trust Inc., Crescent Real Estate Equities Company, First Potomac Realty Trust, Global Signal, Inc., Parkway Properties, Inc. and PS Business Parks, Inc. The Compensation Committee believes this group and the group used for our 2006 analysis each represent appropriate groups of comparable companies during the relevant timeframes based on their market capitalizations, number of employees and industries.

Annual Performance Reviews

To aid the Compensation Committee in making its determination, Richard A. Magnuson, our Chairman, and Michael F. Foust, our Chief Executive Officer, provide recommendations annually to the Compensation Committee regarding the compensation of all named executive officers (other than themselves). Each named executive officer other than Messrs. Magnuson and Foust, in turn, participates in an annual performance review with Mr. Foust to provide input about their contributions to our success for the period being assessed. The performance of our named executive officers is reviewed annually by the Compensation Committee.

Description of Individual Elements of Compensation

During the year ended December 31, 2006, compensation for our named executive officers was composed of base salary and annual performance-based cash bonuses.

Annual Base Salary

We provide named executive officers and other employees with base salary to compensate them for services rendered each year. Base salaries comprise the stable part of the compensation program that is not dependent on our performance. This compensation element is necessary to provide the financial certainty that our executives seek when they are considering whether to join or remain with our Company. In connection with our initial public offering, each of our named executive officers entered into employment agreements which set their annual base salaries, subject to adjustment by the Compensation Committee. In February 2006, the Compensation Committee reviewed the salaries of our named executive officers. The Compensation Committee s review was based on an analysis by our compensation consultant delivered in September 2005 of the compensation practices of the companies in the peer group. The Compensation Committee also considered the performance of each of our named executive officers and their contributions to our overall success. Based on their review, the Compensation Committee increased salaries of our named executive officers for 2006.

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We seek to enter into employment agreements with our executive officers to help provide stability and security and encourage our executives to remain with us. In November 2006, the employment agreements that our Chairman, Chief Executive Officer and Chief Financial Officer entered into in connection with our initial public offering expired. The Compensation Committee is considering the terms of new employment agreements for these individuals, as well as for other executive officers in the Company, and we expect that new employment agreements will be entered into in 2007. Our Compensation Committee approved new base salaries and target bonuses for each of our named executive officers in February 2007, which the Company instituted in March 2007. These base salaries and target bonuses were based on the analysis by the compensation consultant of the compensation practices of companies in our peer group. The 2007 annual salaries and incentive bonus targets approved by our Compensation Committee are as follows:

Name	2007 Salary	2007 Bonus Target
Michael F. Foust	$ 525,000	$ 525,000
A. William Stein	$ 360,000	$ 180,000
Scott E. Peterson	$ 315,000	$ 236,250
Christopher J. Crosby	$ 250,000	$ 425,000
Richard A. Magnuson	$ 200,000	$ 300,000

Annual Incentive Bonuses

Our annual incentive bonus program is structured to reward named executive officers based on our performance and the individual executive s contribution to that performance. Annual incentive bonuses are paid in cash if and to the extent performance objectives established by the Compensation Committee at the beginning of the year are achieved. The Compensation Committee believes that the payment of the annual incentive bonus in cash provides the incentive necessary to retain executive officers and reward them for short-term Company performance.

Each named executive officers annual incentive bonus opportunity for 2006 was established by our Compensation Committee. Mr. Magnuson s annual incentive bonus opportunity target for 2006 was 150% of his salary. Mr. Foust s annual incentive bonus opportunity target for 2006 was 75% of his salary. Mr. Stein s annual incentive bonus opportunity target for 2006 was 75% of his salary. Mr. Peterson s annual incentive bonus opportunity target for 2006 was 100% of his salary. Mr. Crosby s annual incentive bonus opportunity target for 2006 was $400,000. There were no minimums or maximums for annual incentive bonus opportunities in 2006 (except that a portion of Mr. Crosby s bonus that related to leasing was capped).

For 2006, based on the recommendations of Messrs. Magnuson and Foust, and review of the Company s business plan, the Compensation Committee established financial and operating goals and organizational development goals for each named executive officer. The financial and operating goals included funds from operations, or FFO, targets, financing objectives, acquisitions targets and leasing objectives. FFO is used by industry analysts and investors as a supplemental performance measure of a REIT. FFO represents net income (loss) available to common stockholders and unitholders (computed in accordance with U.S. GAAP), excluding gains (or losses) from sales of property, real estate related depreciation and amortization (excluding amortization of deferred financing costs) and after adjustments for unconsolidated partnerships and joint ventures. For the purpose of determining bonuses, we adjust FFO to exclude profits, losses or expenses which the Compensation Committee determined to be non-recurring to give a more accurate picture of our annual performance. The target and minimum levels of FFO established by the Compensation Committee were $1.60 and $1.55, respectively. These amounts were set by the Compensation Committee based on a number of factors, including expectations surrounding acquisitions and leasing assumptions, financing assumptions, earnings growth, general economic conditions, real estate and technology fundamentals and other specific circumstances facing the Company. The financing objective included many factors, including those related to corporate equity and debt offerings, secured

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financings and re-financings, management of the Company s revolving credit facility, management of the Company s debt-to-equity ratio and maintaining appropriate capital capacity to fund the Company s acquisition and redevelopment programs. The acquisitions objective related to total acquisitions by the Company and the acquisitions target was set by the Compensation Committee for 2006 at $400 million of total acquisitions. The leasing objective was as a percentage of leases signed during 2006.

The organizational development goals included culture and staffing. The culture objective included many factors, including those related to the executive s leadership, the executive s fostering of employee engagement and the Company s values, and intra-departmental communication and cooperation. The staffing objective also included many factors, including hiring and retaining qualified and talented individuals, achieving and maintaining appropriate staffing levels for current and future departmental needs and professional development among the executive s team.

The specific financial and operating goals and organizational development goals for each named executive officer varied depending upon their areas of responsibility. Mr. Magnuson s bonus was based 85% on financial and operating goals and 15% on organizational development goals. Mr. Foust s bonus was based 70% on financial and operating goals and 30% on organizational development goals. Mr. Stein s bonus was based 70% on financial and operating goals and 30% on organizational development goals. Mr. Peterson s bonus was based 80% on financial and operating goals and 20% on organizational development goals. Mr. Crosby s bonus was based 87.5% on financial and operating goals and 12.5% on organizational development goals.

For all objectives other than leasing, the Compensation Committee, based in part on the recommendations of Messrs. Magnuson and Foust for all named executive officers, assigned each officer a percentage representing the achievement of each objective (not exceeding 100% achievement). Each named executive officer s bonus was adjusted based on the achievement of each objective with full bonus being paid for 100% achievement and proportional reductions to the extent less than 100% achievement was attained. For Mr. Foust, in addition to the factors described above, the Compensation Committee considered Mr. Foust s total base salary and annual incentive bonus target relative to the peer group and the Company s and his overall performance, and determined to increase his annual incentive bonus for 2006 to 140% of his base salary.

Bonus criteria for 2007 have not yet been determined.

Equity Incentive Compensation

We have historically granted to our executive officers stock options and long-term incentive units in our operating partnership under our 2004 Incentive Award Plan. The objective of our executive compensation program is to attract, retain and motivate talented executives who can help maximize stockholder value. We believe that a significant portion of the compensation paid to executive officers should be closely aligned with our performance on both a short-term and long-term basis. The Compensation Committee believes that, while our annual bonus program provides awards for positive short-term performance, equity participation creates a vital long-term partnership between executive officers and stockholders. The program is intended to encourage high performance, promote accountability and ensure that the interests of the executives are aligned with the interests of our stockholders by linking a significant portion of executive compensation directly to increases in stockholder value. We do not currently have a policy related to the timing of equity incentive compensation awards.

2005 Outperformance Awards

On September 29, 2005, the Compensation Committee, based on the recommendations of the compensation consultant, approved the long-term, performance based equity compensation plan referred to as the 2005 Outperformance Plan. Awards under the 2005 Outperformance Plan, which were granted in the form of unvested class C profits interest units under our 2004 Incentive Award Plan, were designed by the Compensation Committee and the compensation consultant to align our executive officers interests with the long-term interests

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of our stockholders by providing our executive officers with the potential to receive long-term equity awards based on generating superior returns for our stockholders over a three-year measurement period.

Pursuant to the class C units agreements entered into in connection with these awards, the class C units subject to each award will vest based on the achievement of a 10% or greater compound annual total stockholder return (which we refer to as the performance condition) combined with the executive s continued service with our Company or our operating partnership. If we achieve a compound annual total stockholder return equal to at least 10% over a period commencing on October 1, 2005 and ending on the earlier of September 30, 2008 and the date of a change in control of our Company, the performance condition will be deemed satisfied with respect to a number of class C units that is based on the executive s allocated percentage of an aggregate performance award pool. For purposes of calculating the total stockholder return during this period, the initial value of our common stock will be equal to $17.89 (which represents the five day trailing average of the closing prices of our common stock ending on September 30, 2005) and the ending value of our common stock will be based on the five day trailing average at the end of the performance period and will include an amount that would have been realized if all cash dividends paid during the performance period were reinvested in common stock on the applicable dividend payment date. Unvested class C units do not receive quarterly distributions until the end of the performance period, at which point the number of class C units that have satisfied the performance condition will receive quarterly distributions.

The aggregate amount of the 2005 performance award pool is equal to 7% of the excess stockholder value created during the applicable performance period, but in no event will the amount of the pool exceed the lesser of $40,000,000 or the value of 2.5% of the total number of shares of our common stock and limited partnership units of our operating partnership at the end of the performance period. Under the class C units agreements, excess stockholder value is equal to the excess of (x) the aggregate market value of the total number of shares of common stock and units outstanding at the end of the performance period, plus the cumulative value of dividends paid during the performance period (assuming reinvestment in our common stock), over (y) the aggregate market value of the common stock and units as of October 1, 2005 earning a compound annual rate of return equal to 10% during the performance period, plus the aggregate market value of new shares of common stock and units issued by our Company or our operating partnership during the performance period earning a compound annual rate of return equal to 10% from the date of issue through the end of the performance period.

Absent an earlier change in control of our Company, 60% of the class C units that satisfy the performance condition will vest at the end of the three-year performance period and an additional 1/60th of such class C units will vest on the date of each monthly anniversary thereafter, provided that the executive s service has not terminated prior to the applicable vesting date. If, however, a change in control of our Company occurs before September 30, 2008 and we achieve a compound annual total stockholder return (based on the price per share paid in the change in control transaction) equivalent to at least 10% during the period commencing on October 1, 2005 and ending on the date of the change in control, 100% of the class C units that satisfy the performance condition as of the change in control date will vest immediately prior to the change in control. In addition, if a change in control of our Company occurs after the performance condition has been satisfied and the executive remains a service provider, the class C units will fully vest immediately prior to the change in control.

If the executive s service is terminated due to death or disability or by us without cause (or by the executive for good reason if the executive s employment agreement contemplates a good reason termination) prior to the end of the performance period or change in control date and we later satisfy the performance condition, a pro rata portion of the class C units will then vest based on the executive s length of service during the performance period (20% if the executive remained in service through September 30, 2006 and 1/60th for each subsequent month of service thereafter).

To the extent that any class C units fail to satisfy the performance condition at the end of the performance period (or the change in control date, if earlier), such class C units will automatically be cancelled and forfeited by the executive. In addition, any class C units which are not eligible for pro rata vesting in the event of a

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termination of the executive s employment due to death or disability or by us without cause (or by the executive for good reason, if applicable) will automatically be cancelled and forfeited upon a termination of the executive s employment.

In the event that the value of the executive s allocated portion of the award pool that satisfies the performance 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. Sixty percent of the shares of restricted stock will be vested at the time of issuance and 1/60th of such shares will vest on each monthly anniversary thereafter, subject to full accelerated vesting in the event of a subsequent change in control of our Company. If, however, this additional payment is made in connection with a change in control of our Company that satisfies the performance condition, all of the shares issued will be fully vested at the time of issuance. If the executive s service is terminated due to death or disability or by us without cause (or by the executive for good reason, if applicable) prior to the end of the performance period or change in control date, the executive will be entitled to receive a similar pro rata payment, based on his service during the performance period, in the form of shares of fully vested common stock rather than restricted stock.

All determinations, interpretations and assumptions relating to the vesting and calculation of the awards under the class C units agreements will be made by the administrator of our 2004 Incentive Award Plan (presently the Compensation Committee). In addition, the administrator may, in its discretion, adjust or modify the methodology for calculating the vesting of the awards (other than the executive s allocated percentage of the performance award pool) to account for events affecting the value of our common stock which the administrator of our 2004 Incentive Award Plan does not consider indicative of our performance, such as the issuance of new common stock, stock repurchases, stock splits, issuances and/or exercises of stock grants or stock options, and similar events.

The following table provides information concerning grants of class C profits interest units (class C units) granted to each of our named executive officers. All grants occurred on October 1, 2005. The class C units will begin to vest on September 30, 2008, or upon an earlier change in control of our Company, based on our satisfaction of the performance condition described above combined with the recipient s continued service with our Company or our operating partnership. If the performance condition and the other vesting conditions are satisfied with respect to a class C unit, the class C unit will be treated in the same manner as the long-term incentive units issued by our operating partnership.

Long-Term Incentive Plans Class C units

Name	Number of Class C units (#)	Award Pool Percentage
Michael F. Foust	250,000	18.75%
A. William Stein	166,667	12.50%
Scott E. Peterson	166,667	12.50%
Christopher J. Crosby, Jr.	80,000	6.00%
Richard A. Magnuson	333,333	25.00%

401(k) Plan

We provide a 401(k) retirement plan to help our named executive officers, as well as our other employees, plan and save for retirement. Effective as of January 1, 2006, we amended and restated our 401(k) Plan in the form of an individually designed prototype plan sponsored by us for all employees who are age 21. The amended and restated 401(k) Plan permits eligible employees to elect to defer up to 80% of their annual compensation, subject to the maximum limits permitted under the Internal Revenue Code of 1986, as amended (the Code). We provide a matching contribution equal to the sum of 100% of the first 3% of an eligible employee s annual

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compensation deferrals, plus 50% of the next 2% of an eligible employee s annual compensation deferrals. The amended and restated 401(k) Plan is intended to be a tax-qualified 401(k) safe harbor plan under of the Code.

Perquisites

We provide our named executive officers with perquisites and other personal benefits that we and the Compensation Committee believe are reasonable and consistent with its overall compensation program objectives to better enable us to attract and retain superior executives for key positions. The Compensation Committee periodically reviews the levels of perquisites and other personal benefits provided to named executive officers. In 2006, we provided the named executive officers with life insurance, medical, dental, vision and disability plan benefits, for which our named executive officers are charged the same rates as all other employees. Consistent with the foregoing, we also pay for parking spaces for each of our named executive officers and certain other officers and employees of our Company.

Tax Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code disallows a tax deduction for any publicly held corporation for individual compensation of more than $1.0 million in any taxable year to any named executive officers other than compensation that is performance-based under a plan that is approved by the stockholders and that meets certain other technical requirements. Despite the fact that our annual incentive bonuses and certain equity-based compensation awards are determined based on the evaluation of our performance and take into consideration certain financial and strategic goals, the Compensation Committee does not apply these factors on a strict formulaic basis. As a result, this compensation may not satisfy the requirements of Section 162(m). We believe that we qualify as a REIT under the Internal Revenue Code and generally are not subject to federal income taxes provided we distribute to our stockholders at least 100% of our taxable income each year. As a result, the payment of compensation that does not satisfy the requirements of Section 162(m) does not have a material adverse federal income tax consequence to us, provided we continue to distribute at least 100% of our taxable income each year. In appropriate circumstances, the Compensation Committee therefore may elect to implement programs that recognize a full range of performance criteria important to our success and to ensure our executive officers are compensated in a manner consistent with our best interests and those of our stockholders, even where the compensation paid under such programs may not be deductible under Section 162(m).

Compensation Committee Report*

The Compensation Committee of the Board of Directors of Digital Realty Trust, Inc. is currently composed of three independent directors, Dennis E. Singleton (Chair), Kathleen Earley and Ruann F. Ernst, Ph.D. The Compensation Committee has overall responsibility for our executive compensation policies and practices, including:

- annually reviewing and, if necessary, revising the Company s compensation philosophy;
- annually reviewing and approving corporate goals and objectives relating to the compensation of our Chief Executive Officer, evaluating the performance of our Chief Executive Officer and establishing the compensation of our Chief Executive Officer based on such evaluation;
- making recommendations to the Board with respect to compensation (other than with respect to our Chief Executive Officer), incentive-compensation plans and equity-based plans and reviewing and approving all officers employment agreements and severance arrangements;

reviewing and approving all other named executive officers and directors compensation;

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* The material in this report is not soliciting material, and is not deemed filed with the SEC.

managing annual bonus, long-term incentive, stock option, employee pension and welfare benefit plans;

periodically reviewing policies concerning perquisite benefits;

determining the Company s policy with respect to application of Section 162(m) of the Code;

determining the Company s policy with respect to change of control or parachute payments;

managing and reviewing executive officer and director indemnification and insurance matters;

managing and reviewing any employee loans in amounts equal to or greater than $200,000;

preparing and approving the Compensation Committee Report included in this Proxy Statement;

annually evaluating its own performance, including compliance with its charter; and

annually reviewing and assessing its charter.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on the review and discussions with management, the Compensation Committee recommends to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE OF OUR BOARD OF DIRECTORS

Dennis E. Singleton, Chair

Ruann F. Ernst, Ph.D.

Kathleen Earley

Compensation Committee Interlocks and Insider Participation

There are no Compensation Committee interlocks and none of our employees participates on the Compensation Committee.

Executive Compensation

Summary Compensation Table

The following table summarizes the total compensation paid to or earned by each of the named executive officers for the year ended December 31, 2006.

	Year	**Total**

Name and Principal Position		Salary ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	($)(5)
Michael F. Foust, Chief Executive Officer	2006	$ 418,750	$ 311,223	$ 28,497	$ 595,000(6)	$ 57,116(7)	$ 1,410,586
A. William Stein, Chief Financial Officer, Chief Investment Officer and Secretary	2006	335,833	192,947	18,385	231,200	47,963(8)	826,328
Scott E. Peterson, Senior Vice President, Acquisitions	2006	295,833	182,049	18,385	279,000	43,029(9)	818,296
Christopher J. Crosby, Jr., Senior Vice President, Sales and Technical Services	2006	200,000	94,358	39,723	400,000	34,075(10)	768,156
Richard A. Magnuson, Chairman	2006	150,000	211,500	28,497	225,000	13,250(11)	628,247

(1) The amounts in this column represent the Company s 2006 non-cash compensation expense under Financial Accounting Standard No. 123(R), Shared-Based Payments related to long-term incentive units and class C

units, in all cases awarded in prior years. For a discussion of the valuation reflected in the Stock Awards column, refer to Note 9 to the Company s consolidated financial statements for the fiscal year ended December 31, 2006, included in the Company s annual report on Form 10-K for the year ended December 31, 2006.

(2) The amounts in this column represent the Company s 2006 non-cash compensation expense under Financial Accounting Standard No. 123(R), Share-Based Payments related to stock options, in all cases awarded in prior years. For a discussion of the assumptions made in the valuation reflected in the Option Awards column, refer to Note 8 to the Company s consolidated financial statements for the fiscal year ended December 31, 2006, included in the Company s annual report on Form 10-K for the year ended December 31, 2006.

(3) The amounts in this column represent performance-based cash incentive award payments that were earned during the specified year and paid in the following year.

(4) The amounts in this column represent medical, dental, vision and disability insurance premiums, life insurance premiums, 401(k) matching funds, parking and distributions on unvested long-term incentive units, but excludes distributions paid on vested long-term incentive units.

(5) Total salary and cash incentive awards paid under our 2004 Incentive Award Plan constituted the following percentages of total compensation for each named executive officer:

Michael F. Foust	71.9%
A. William Stein	68.6%
Scott E. Peterson	70.2%
Christopher J. Crosby, Jr.	78.1%
Richard A. Magnuson	59.7%

(6) See Compensation Discussion and Analysis Description of Individual Elements of Compensation Annual Incentive Bonuses for a discussion of Mr. Foust s actual bonus relative to his target bonus for 2006.

(7) Includes $10,192 for medical, dental, vision and disability insurance premiums, $33,035 from dividends on unvested long-term incentive units, and other amounts related to parking, life insurance premiums and 401(k) matching funds.

(8) Includes $15,198 for medical, dental, vision and disability insurance premiums, $18,876 from dividends on unvested long-term incentive units, and other amounts related to parking, life insurance premiums and 401(k) matching funds.

(9) Includes $12,629 for medical, dental, vision and disability insurance premiums, $16,517 from dividends on unvested long-term incentive units, and other amounts related to parking, life insurance premiums and 401(k) matching funds.

(10) Includes $15,198 for medical, dental, vision and disability insurance premiums, $9,438 from dividends on unvested long-term incentive units, and other amounts related to parking, life insurance premiums and 401(k) matching funds.

(11) Includes amounts related to parking and 401(k) matching funds.

Grants of Plan-Based Awards

The following table provides information concerning target payouts under plan-based awards made during 2006 to each of our named executive officers. None of our named executive officers received equity grants in 2006.

	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards		
Name	**Threshold ($)**	**Target ($)[1]**	**Maximum ($)**
Michael F. Foust, Chief Executive Officer		$ 320,000[2]	
A. William Stein, Chief Financial Officer, Chief Investment Officer and Secretary		$ 255,000[2]	
Scott E. Peterson, Senior Vice President, Acquisitions		$ 300,000[2]	
Christopher J. Crosby, Jr. Senior Vice President, Sales and Technical Services		$ 400,000	
Richard A. Magnuson, Chairman		$ 225,000	

(1) Represents target cash incentive awards payable in 2007 based on 2006 performance. There were no minimum or maximum bonus award amounts. See the Summary Compensation Table under the Non-Equity Incentive Plan Compensation column for actual 2006 bonuses paid.

(2) Represents target cash incentive awards based on salaries established in 2006. Actual cash incentive awards reflect salaries actually paid in 2006.

Narrative Disclosure to Summary Compensation Table and Grants of Plan Based Awards Table

Employment Agreements

During 2006, we were party to employment agreements with each of our named executive officers. The employment agreements for Messrs. Magnuson, Foust and Stein expired by their terms in November 2006. The employment agreements with Messrs. Peterson and Crosby remain in effect. We expect that we will enter into new employment agreements with each of our named executive officers in 2007.

In addition to the compensation disclosed above, the employment agreements with Messrs. Peterson and Crosby provide that their employment with us is at-will and may be terminated by either them or us upon 30 days advance written notice.

The employment agreements of Messrs. Peterson and Crosby provide severance benefits in connection with a termination without cause, and in the case of Mr. Peterson, a change in control, as described below under Potential Payments upon Termination or Change in Control. We expect that the new employment agreements we enter into with our named executive officers will contain severance and change in control benefits, although the amounts and terms and conditions of those benefits are not presently known or determinable. The employment agreements of Messrs. Peterson and Crosby also contain standard confidentiality provisions which apply indefinitely and non-solicitation provisions which will apply during the term of the executive s employment and for a six-month period thereafter.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Option Awards					Stock Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)[1]	Market Value of Shares or Units of Stock That Have Not Vested ($)[2]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)[3]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)[4]
Michael F. Foust, Chief Executive Officer		62,632		$ 12.00	10/28/14	31,165	$ 1,066,778	250,000	$ 7,500,000
A. William Stein, Chief Financial Officer, Chief Investment Officer and Secretary		40,408		$ 12.00	10/28/14	17,808	$ 609,568	166,667	$ 5,000,000
Scott E. Peterson, Senior Vice President, Acquisitions		40,408		$ 12.00	10/28/14	15,582	$ 533,372	166,667	$ 5,000,000
Christopher J. Crosby, Jr.		30,306		$ 12.00	10/28/14	8,904	$ 304,784	80,000	$ 2,400,000
Senior Vice President, Sales and Technical Services		39,167		$ 20.37	11/08/15				
Richard A. Magnuson, Chairman	62,631	62,632		$ 12.00	10/28/14			333,333	$ 10,000,000

(1) Represents long-term incentive units in our Operating Partnership. Twenty percent of the long-term incentive units vested on October 1, 2006 and 1/60 of such long-term incentive units vest each month thereafter until all are vested.

(2) Based on the closing market price of our common stock on December 29, 2006 (the last trading day of the 2006 fiscal year) of $34.23 per share.

(3) Represents class C units in our Operating Partnership granted pursuant to the 2005 Outperformance Plan described above under Compensation Discussion and Analysis Description of Individual Elements of Compensation 2005 Outperformance Awards. The vesting of the class C units depends on satisfaction of the performance condition and the other factors described under Compensation Discussion and Analysis Description of Individual Elements of Compensation 2005 Outperformance Awards.

(4) Represents maximum payout value of the class C units.

Option Exercises and Stock Vested

The following table discloses the number of options exercised by our named executive officers during 2006, and the value realized by these officers on exercise. The following table also discloses the number of long-term incentive units which vested during 2006, and the value realized by these officers on vesting. No class C profits interest units vested during 2006.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)[1]	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)[2]
Michael F. Foust, Chief Executive Officer	62,631	$ 1,455,660	9,485	$ 299,910
A. William Stein, Chief Financial Officer, Chief Investment Officer and Secretary	40,407	$ 851,721	5,420	$ 171,372
Scott E. Peterson, Senior Vice President, Acquisitions	40,407	$ 843,415	4,743	$ 149,954
Christopher J. Crosby, Jr. Senior Vice President, Sales and Technical Services	25,986	$ 513,330	2,710	$ 85,687
Richard A. Magnuson, Chairman				

(1) Value realized on exercise of stock options is calculated based on the difference between the per share closing market price of our common stock on the date of exercise and the exercise price of such options.

(2) Value realized on vesting of long-term incentive units is calculated based on the per share closing market price of our common stock on the vesting dates of such units and assumes those units were exchanged for common stock and sold on that date.

Pension Benefits

We do not provide pension benefits to our employees.

Nonqualified Deferred Compensation

We do not have a nonqualified deferred compensation program.

Potential Payments upon Termination or Change in Control

Our named executive officers are entitled to certain benefits upon a change in control of the Company, including that all unvested long-term incentive units and stock options held by them will become fully vested and exercisable upon a change in control, even absent a termination of employment. In addition, class C units will vest to the extent that specified performance targets are satisfied at the time of the change in control.

The employment agreements of Messrs. Peterson and Crosby provide that if the executive s employment is terminated by us without cause, subject to the executive s execution and non-revocation of a general release of claims, the executive will be entitled to receive severance payments. Mr. Peterson will be entitled to a lump-sum severance payment in an amount equal to 50% of the sum of his annual base salary as in effect on the date of termination plus his target annual bonus for the fiscal year in which the

termination occurs. Mr. Crosby will be entitled to severance payments in the form of salary continuation for six months following the termination at a rate equal to his then current annual base salaries.

As used in Mr. Crosby s agreement, cause may be determined in the reasonable discretion of the Company, and includes:

- a material failure by the executive to exercise a reasonable level of skill and efficiency in performing his duties or responsibilities;
- misconduct by the executive which injures the general reputation of the Company or its subsidiaries or affiliates, or interferes with contracts or operations of the Company or its subsidiaries or affiliates;
- the executive s conviction of, or entry by such executive of a guilty or no contest plea to, a felony or any crime involving moral turpitude;
- fraud, misrepresentation, or breach of trust by the executive in the course of his employment which adversely affects us or our subsidiaries or affiliates;
- the executive s willful and gross misconduct in the performance of his duties that results in economic or other injury to us or our subsidiaries or affiliates;
- a material breach by the executive of his covenants set forth in his employment agreement; or
- a material breach by the executive of any of his obligations set forth in his employment agreement.

As used in Mr. Peterson s agreement, cause may be determined in the reasonable discretion of the Company, and includes:

- willful and gross misconduct by the executive which materially injures the general reputation of the Company or its subsidiaries or affiliates, or interferes with contracts or operations of the Company or its subsidiaries or affiliates;
- the executive s conviction of, or entry of a guilty or no contest plea to, a felony or any crime involving moral turpitude;
- fraud, misrepresentation, or breach of trust by the executive in the course of his employment which adversely affects the Company or its subsidiaries or affiliates;
- willful and gross misconduct by the executive in the performance of his duties that results in economic or other injury to the Company or its subsidiaries or affiliates;
- a material breach by the executive of his covenants set forth in his employment agreement; or

a material breach by the executive of any of his obligations set forth in his employment agreement.

In the case of Mr. Peterson, if he is terminated on or within one year after a change in control (as defined below) of our Company, the amount of his severance payment will be equal to 100% of the sum of his annual base salary as in effect on the date of termination plus the greater of his target annual bonus for the fiscal year in which the termination occurs or the annual base paid or payable to him by us for the fiscal year immediately preceding the fiscal year in which the termination occurs.

As used in Mr. Peterson s employment agreement, change in control means the occurrence of any of the following events:

the acquisition, directly or indirectly, by any person or group of beneficial ownership of securities entitled to vote generally in the election of directors (referred to as voting securities) that represent 35% or more of the combined voting power of our then outstanding voting securities, subject to certain exceptions;

individuals who, as of the date of the closing of our initial public offering constitute the Board cease for any reason to constitute at least a majority of the Board, provided that any individual becoming a director subsequent to the date of the agreement whose election by our stockholders, or nomination for election by the Board, was approved by a vote of at least a majority of the directors then comprising the incumbent Board will be considered as though such individual were a member of the incumbent Board;

our consummation (whether directly or indirectly through one or more intermediaries) of a merger, consolidation, reorganization, or business combination or a sale or other disposition of all or substantially all of our assets or the acquisition of assets or stock of another entity, in each case, other than a transaction;

which results in our voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, us or owns, directly or indirectly, all or substantially all of our assets or otherwise succeeds to our business) directly or indirectly, at least a majority of the combined voting power of the successor entity s outstanding voting securities immediately after the transaction, and

after which no person or group, other than Global Innovation Partners, LLC or CALPERS, or any affiliate thereof, beneficially owns voting securities representing 35% or more of the combined voting power of the successor entity; or

approval by our stockholders of our liquidation or dissolution.

The following table sets forth an estimate of the payments to be made to our named executive officers in the event any of the terminations described above or a change in control occurs, assuming that the triggering event took place on December 31, 2006.

Name	Without Cause	Death or Disability	Change of Control
Michael F. Foust,			
Chief Executive Officer			
Unvested Stock Options			
Unvested Profits Interest Units	$	$	$ 1,392,309
	$	$	$ 1,066,778
Class C Units	$	$ 1,750,000	$ 7,500,000
A. William Stein,			
Chief Financial Officer, Chief Investment Officer and Secretary			
Unvested Stock Options			
Unvested Profits Interest Units	$	$	$ 898,270
	$	$	$ 609,568
Class C Units	$	$ 1,666,667	$ 5,000,000
Scott E. Peterson,			
Senior Vice President, Acquisitions			
Severance Payment	$ 300,000	$	$ 600,000
Unvested Stock Options			
Unvested Profits Interest Units	$	$	$ 898,270
	$	$	$ 533,372
Class C Units	$	$ 1,666,667	$ 5,000,000
Christopher J. Crosby, Jr.			

Senior Vice President, Sales and Technical Services			
Severance Payment	$ 100,000	$	$
Unvested Stock Options			
Unvested Profits Interest Units	$	$	$ 1,216,557
	$	$	$ 304,784
Class C Units	$	$ 560,000	$ 2,400,000
Richard A. Magnuson,			
Chairman			
Unvested Stock Options			
Unvested Profits Interest Units	$	$	$ 1,392,309
	$	$	
Class C Units	$	$ 2,333,333	$ 10,000,000

NON-EMPLOYEE DIRECTOR COMPENSATION

We use a combination of cash and equity-based incentive compensation to attract and retain qualified non-employee director candidates to serve on our Board. In setting non-employee director compensation, we consider the significant amount of time that directors spend in fulfilling their duties to our Company as well as the skill level we require of members of our Board.

Compensation of Directors

Each of our directors who is not an employee of our Company or any of our subsidiaries receives an annual fee of $25,000 for services as a director and receives $1,500 for each meeting attended in person and $750 for each meeting attended telephonically. Directors who serve on the Audit, Nominating and Corporate Governance and/or Compensation Committees receive a fee of $1,000 for each committee meeting attended in person and $750 for each committee meeting attended telephonically. The Director who serves as the chair of the Audit Committee receives an additional annual retainer of $15,000; the Director who serves as the chair of the Compensation Committee receives an additional annual retainer of $7,500; and the Director who serves as the chair of the Nominating and Corporate Governance Committee receives an additional annual retainer of $5,000.

Directors who are also our employees or employees of any of our subsidiaries do not receive compensation for their services as directors.

Our 2004 Incentive Award Plan provides for formula grants of long-term incentive units to non-employee directors. Each person who was a non-employee director as of the date of the pricing of our initial public offering (the pricing date) was granted 6,448 fully vested long-term incentive units on that date. During the term of the 2004 Incentive Award Plan, each person who was a non-employee director as of the pricing date will automatically be granted 1,000 long-term incentive units on the date of each annual meeting of stockholders after the date of our initial public offering at which the director is re-elected to our board of directors, commencing with the third annual meeting after the date of our initial public offering. During the term of the 2004 Incentive Award Plan, each person who is initially elected to our board of directors after the pricing date and who is a non-employee director at the time of his or her initial election will automatically be granted (i) 6,448 fully vested long-term incentive units on the date of the initial election, and (ii) 1,000 long-term incentive units on the date of each annual meeting of stockholders after the initial election at which the director is re-elected to our board of directors, commencing with the third annual meeting after the initial election. If a non-employee director does not qualify as an accredited investor within the meaning of Regulation D of the Securities Act of 1933, as amended, on the date of any grant of long-term incentive units to the director, then he or she will not receive a grant of long-term incentive units, and instead will automatically be granted an equivalent number of shares of our common stock at a per share purchase price equal to the par value of the stock, and subject to the same vesting schedule as would have applied to the corresponding grant of long-term incentive units. All initial grants of long-term incentive units awarded to non-employee directors as described above will be vested in full as of the date of grant. Subject to the director s continued directorship, all subsequent annual grants to non-employee directors will vest with respect to 20% of the long-term incentive units subject thereto on the first anniversary of the date of grant and with respect to an additional 1/60th of the long-term incentive units subject thereto on each monthly anniversary thereafter.

The table below summarizes the compensation we paid to non-employee directors for the year ended December 31, 2006.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified	All Other Compensation ($)[1]	Total ($)

		Deferred Compensation Earnings	
Laurence A. Chapman	$ 54,750	N/A	$ 54,750
Kathleen Earley	$ 41,750	N/A	$ 41,750
Ruann F. Ernst, Ph.D.	$ 42,750	N/A	$ 42,750
Dennis E. Singleton	$ 43,750	N/A	$ 43,750

(1) Excludes dividends from vested long-term incentive units.

EQUITY COMPENSATION PLAN TABLE

The following table provides information with respect to shares of our Common Stock that may be issued under our existing equity compensation plan.

Equity Compensation Plan Information[1]

	(a) Number of shares of Common Stock to be issued upon exercise of outstanding options	(b) Weighted-average exercise price of outstanding options[2]	(c) Number of shares of restricted Common Stock and Common Stock issuable upon redemption of outstanding long-term incentive units and class C units[3]	(d) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) and (c))[4]
Plan Category				
Equity Compensation plans approved by stockholders	770,596	$18.05	2,909,047	436,744
Equity Compensation plans not approved by stockholders	N/A	N/A	N/A	N/A

(1) Information as of December 31, 2006.
(2) The weighted-average remaining term is 8.42 years.
(3) The number of unvested full-value awards is 1,387,660. Full-value awards are comprised of restricted stock, long-term incentive units and class C units.
(4) Includes shares available for future restricted stock grants and shares issuable upon redemption of long-term incentive units available to be granted under the 2004 Incentive Award Plan.

AUDIT MATTERS

Audit Committee Report*

The Audit Committee assists the Board of Directors (the Board) of Digital Realty Trust, Inc. (the Company) with its oversight responsibilities regarding the Company s financial reporting process. The Company s management is responsible for the preparation, presentation and integrity of the Company s financial statements as well as the Company s financial reporting process, accounting policies, internal audit function, internal control over financial reporting and disclosure controls and procedures. The independent registered public accounting firm is responsible for performing an audit of the Company s financial statements and its internal control over financial reporting and for reviewing the Company s quarterly financial statements.

The Audit Committee has reviewed and discussed the Company s audited consolidated financial statements for the year ended December 31, 2006 with the Company s management and with KPMG LLP, the Company s independent registered public accounting firm. The Audit Committee discussed with KPMG LLP the overall scope of and plans for the audit by KPMG LLP. The Audit Committee regularly meets with KPMG LLP, with and without management present, to discuss the results of its examination, its evaluation of the Company s internal control over financial reporting, and the overall quality of the Company s financial reporting. In the performance of their oversight function, the members of the Audit Committee necessarily relied upon the information, opinions, reports and statements presented to them by the management of the Company and by KPMG LLP. The Audit Committee has also discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee has received and reviewed the written disclosures and the letter from KPMG LLP required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with KPMG LLP its independence.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board that the audited consolidated financial statements referred to above be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE OF OUR BOARD OF DIRECTORS

Laurence A. Chapman, Chair

Ruann F. Ernst, Ph.D.

Dennis E. Singleton

* The material in this report is not soliciting material, is not deemed filed with the SEC, and is not incorporated by reference in any filing of the Company under the Act or the Exchange Act, whether made before or after the date of this Proxy Statement and irrespective of any general incorporation language in such filing.

Independent Registered Public Accounting Firm

The following summarizes the fees incurred for KPMG LLP s services for the years ended December 31, 2006 and 2005:

	2006	2005
Audit Fees[1]	$ 1,793,252	$ 1,854,903
Audit-Related Fees[2]	90,000	89,000
Tax Fees[3]		119,794
All Other Fees[4]	499,060	71,130
Total Fees	$ 2,382,312	$ 2,134,827

(1) Audit Fees are the aggregate fees billed by KPMG LLP for professional services rendered in connection with the Company s common and preferred stock offerings, audits of statements of revenue and certain expenses for acquired properties, reviews of the Company s quarterly financial statements, and audits of the Company s annual financial statements.

(2) Audit-related fees include fees relating to audits of separate financial statements for certain properties which were required by lenders for such properties and other audit services related to lender requirements.

(3) Tax fees are fees related to preparation of annual tax returns for the Company, our operating partnership and taxable REIT subsidiaries.

(4) All other fees are fees related to due diligence assistance services provided in connection with the acquisition of certain properties.

All audit, audit-related, tax and all other services provided by KPMG LLP were pre-approved by the Audit Committee.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

200 Paul Avenue and 1100 Space Park Drive Contribution Agreement

In connection with the consummation of our initial public offering, our operating partnership entered into a contribution agreement with San Francisco Wave Exchange, LLC, Santa Clara Wave Exchange, LLC and Exchange Colocation, LLC, referred to below as the eXchange parties, pursuant to which the eXchange parties contributed their interests in 200 Paul Avenue, 1100 Space Park Drive, the eXchange colocation business and other specified assets and liabilities to the operating partnership in exchange for cash, units and the assumption of debt.

Under the eXchange parties contribution agreement, we agreed to indemnify each eXchange party against adverse tax consequences in the event our 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 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 units issued to them in the formation transactions consummated concurrently with our initial public offering. These tax indemnities do not apply to the disposition of a restricted property pursuant to a transaction described in Section 721, 1031 or 1033 of the Code, or other applicable non-recognition provision under the Code.

Under the eXchange parties contribution agreement, we also agreed to make $20.0 million of indebtedness available for guaranty by these parties until the earlier of November 3, 2013 and the date on which these contributors or certain transferees hold less than 25% of the units issued to them in the formation transactions consummated concurrently with our initial public offering.

Right of First Offer Agreements

We have a right of first offer agreement with respect to a property in Frankfurt, Germany which is currently owned by GI Partners, a private equity fund for which Richard Magnuson, our Chairman, serves as chief executive officer. Pursuant to the agreement, we have the right to make the first offer to purchase the property if GI Partners decides to sell it. If we make an offer that is rejected, GI Partners may sell the property, but only to a third party within 180 days thereafter, on terms that are better than the terms of our offer or the unsolicited offer that we elected not to match. Any purchase by us of this property may be paid by us with units, with each unit valued at the then-fair market value of a share of our Common Stock, or in cash. The right of first offer agreements will expire on the earlier of December 31, 2009, upon the completion of the dissolution of GI Partners or the date on which GI Partners no longer owns the property.

Registration Rights

We have granted those persons who received units in the formation transactions, certain registration rights with respect to the shares of our Common Stock that may be acquired by them in connection with the exercise of the redemption/exchange rights under the partnership agreement of our operating partnership. These registration rights require us to use our commercially reasonable efforts to keep effective a shelf registration statement covering all such shares of Common Stock. In addition, a third party who received units in the formation transaction has the right, on one occasion, to require us to undertake a demand registration.

We have also granted registration rights to GI Partners with respect to any units issued, or to be issued, upon exercise of the right of first offer agreement with respect to the property in Frankfurt, Germany, effective as of the date which is 14 months following the closing of the acquisition. In the event we fail to file this registration statement or fail to maintain its effectiveness, holders will have the right (subject to certain limitations) to have their shares included in any registration statement we file for an underwritten public offering, and holders who individually or in the aggregate own more than $5.0 million of such shares will have the right to require us to

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register all such shares of our Common Stock, provided that we will not be required to effect more than one such demand registration in any twelve-month period.

Linc Facility Services Agreements

In April 2005, we entered into two agreements with Linc Facility Services, LLC, or LFS, on a cost plus basis, primarily for personnel providing for operations and maintenance repairs of the mechanical, electrical, plumbing and general building service systems of five of our properties. Under the first agreement, LFS performs services for us at 600 West Seventh Street. Under the second agreement, LFS performs services for us at 200 Paul Avenue, 1100 Space Park and 150 South First Street. Each of these contracts is for an initial term of two years and will be automatically renewed unless terminated. In January 2005, we entered into a contract with Linc Facility Services, LLC primarily for HVAC maintenance services for 11830 Webb Chapel Road. In 2004, we also entered into two contracts with Linc Facility Services, LLC primarily for HVAC maintenance services for 2323 Bryan Street. We paid a total of $1,302,940 to LFS under these agreements in 2006.

LFS and Linc Facility Services, LLC and Linc Services, LLC belong to The Linc Group, in which GI Partners has owned a majority interest since late 2003. Richard Magnuson, our Chairman, serves as a director to The Linc Group.

tel(x) Agreements

In December 2006, we entered into ten leases with tel(x), in which tel(x) will provide enhanced meet-me-room services to 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 $1.1 million from tel(x) for the year ended December 31, 2006. 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.

CB Richard Ellis Investors

Richard Magnuson, our Chairman, was an employee of CB Richard Ellis Investors during 2006.

The Company engaged affiliates of CB Richard Ellis Investors for real estate services in 2006. The following table presents fees incurred by the Company earned by affiliates of CB Richard Ellis Investors, for the year ended December 31, 2006 (in thousands):

Lease commissions	$ 1,082
Property management fees and other	1,342
Total	$ 2,424

Indemnification Agreements

We have entered into indemnification agreements with all of our named executive officers and other executive officers and with each of our directors that obligate us to indemnify them to the maximum extent permitted by Maryland law. The indemnification agreements provide that:

If a director or executive officer is a party or is threatened to be made a party to any proceeding, other than a proceeding by or in the right of our Company, by reason of such director s or executive officer s status as a director, officer or employee of our Company, we must indemnify such director or executive officer for all expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, unless it has been established that:

the act or omission of the director or executive officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty;

the director or executive officer actually received an improper personal benefit in money, property or other services; or

with respect to any criminal action or proceeding, the director or executive officer had reasonable cause to believe that his or her conduct was unlawful.

If a director or executive officer is a party or is threatened to be made a party to any proceeding by or in the right of our Company to procure a judgment in our Company s favor by reason of such director s or executive officer s status as a director, officer or employee of our Company, we must indemnify such director or executive officer for all expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, unless it has been established that:

the act or omission of the director or executive officer was material to the matter giving rise to the proceeding and was committed in bad faith or was the result of active and deliberate dishonesty; or

the director or executive officer actually received an improper personal benefit in money, property or other services;

provided, however, that we will have no obligation to indemnify such director or executive officer for all expenses and liabilities actually and reasonably incurred by him or her, or on his or her behalf, if it has been adjudged that such director or executive officer is liable to us with respect to such proceeding.

Upon application of a director or executive officer of our Company to a court of appropriate jurisdiction, the court may order indemnification of such director or executive officer if:

the court determines that such director or executive officer is entitled to indemnification under the applicable section of the Maryland General Corporation Law (the MGCL), in which case the director or executive officer shall be entitled to recover from us the expenses of securing such indemnification; or

the court determines that such director or executive officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, whether or not the director or executive officer has met the standards of conduct set forth in the applicable section of the MGCL or has been adjudged liable for receipt of an improper personal benefit under the applicable section of MGCL;

provided, however, that our indemnification obligations to such director or executive officer will be limited to the expenses actually and reasonably incurred by him or her, or on his or her behalf, in connection with any proceeding by or in the right of our Company or in which the officer or director shall have been adjudged liable for receipt of an improper personal benefit under the applicable section of the MGCL.

Notwithstanding, and without limiting, any other provisions of the agreements, if a director or executive officer is a party or is threatened to be made a party to any proceeding by reason of such director s or executive officer s status as a director, officer or employee of our Company, and such director or executive officer is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such proceeding, we must indemnify such director or executive officer for all expenses actually and reasonably incurred by him or her, or on his or her behalf, in connection with each successfully resolved claim, issue or matter, including any claim, issue or matter in such a proceeding that is terminated by dismissal, with or without prejudice.

We must pay all indemnifiable expenses in advance of the final disposition of any proceeding if the director or executive officer furnishes us with a written affirmation of the director s or executive officer s good faith belief that the standard of conduct necessary for indemnification by our Company has been met and a written undertaking to reimburse us if a court of competent jurisdiction determines that the director or executive officer is not entitled to indemnification.

We must pay all indemnifiable expenses to the director or executive officer within 20 calendar days following the date the director or executive officer submits proof of the expenses to us.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended (the Act), may be permitted to directors, officers or persons controlling the registrant pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

ANNUAL REPORT ON FORM 10-K

Stockholders may obtain without charge a copy of the Company s Annual Report on Form 10-K, including financial statements and financial statement schedules, required to be filed with the SEC pursuant to the Exchange Act for the fiscal year ended December 31, 2006, by downloading the report from the Investor Relations section of the Company s Internet site at www.digitalrealtytrust.com; or by writing to Investor Relations, Digital Realty Trust, Inc., 560 Mission Street, Suite 2900, San Francisco, California 94105.

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires the Company s executive officers and directors, and persons who own more than 10% of a registered class of the Company s equity securities (Reporting Persons), to file reports of ownership and changes in ownership with the SEC. Reporting Persons are required by SEC regulations to furnish the Company with copies of all forms they file pursuant to Section 16(a). Based solely on its review of the copies of such reports received by it, and written representations from certain Reporting Persons that no other reports were required for those persons, the Company believes that, during the year ended December 31, 2006, the Reporting Persons met all applicable Section 16(a) filing requirements.

Stockholder Proposals and Nominations

Pursuant to Rule 14a-8 under the Exchange Act, stockholders may present proper proposals for inclusion in the Company s Proxy Statement and for consideration at the Company s 2008 annual meeting. To be eligible for inclusion in the Company s 2008 Proxy Statement, your proposal must be received in writing not later than December 6, 2007 and must otherwise comply with Rule 14a-8 under the Exchange Act. While the Board will consider stockholder proposals, the Company reserves the right to omit from the Company s Proxy Statement stockholder proposals that it is not required to include under the Exchange Act, including Rule 14a-8 of the Exchange Act.

In addition, our Bylaws contain an advance notice provision with respect to matters to be brought at an annual meeting, including nominations, and not included in the Company s Proxy Statement. If you would like to nominate a director or bring any other business before the stockholders at the 2008 Annual Meeting, you must comply with the procedures contained in our Bylaws, including notifying the Company in writing in a timely manner, and such business must otherwise be a proper matter for action by our stockholders. To be timely under our current Bylaws, the notice must be delivered to our Secretary at our principal executive office at 560 Mission Street, Suite 2900, San Francisco, California 94105 not earlier than November 6, 2007 and not later than 5 P.M. Pacific Time, on December 6, 2007. In the event that the date of the 2008 Annual Meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the 2007 Annual Meeting, notice by the stockholder to be timely must be delivered not earlier than the 150th day prior to the date of the meeting and not later than 5:00 P.M., Pacific Time, on the later of the 120th day prior to the date of the meeting or the 10th day following the date of the first public announcement of the meeting.

Our Bylaws provide that nominations of persons for election to the Board and the proposal of business to be considered by our stockholders may be made at an annual meeting pursuant to the Company s notice of meeting, by or at the direction of the Board or by any stockholder of the Company who was a stockholder of record both at the time of giving of notice provided for in our Bylaws and at the time of the annual meeting, who is entitled to vote at the meeting and who complied with the notice procedures set forth in our Bylaws. A stockholder s notice regarding a director nomination shall set forth (i) as to each individual whom the stockholder proposes to nominate for election or reelection as a director, (a) the name, age, business address and residence address of such individual, (b) the class, series and number of any shares of stock of the Company that are beneficially owned by such individual, (c) the date such shares were acquired and the investment intent of such acquisition and (d) all other information relating to such individual that is required to be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules thereunder (including such individual s written consent to being named in the Proxy Statement as a nominee and to serving as a director if elected); (ii) as to any other business that the stockholder proposes to bring before the meeting, a description of the business desired to be brought before the meeting, the reasons for proposing such business at the meeting and any material interest in such business of such stockholder and any Stockholder Associated Person (as defined below), individually or in the aggregate, including any anticipated benefit to the stockholder and the Stockholder Associated Person therefrom; (iii) as to the stockholder giving the

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notice and any Stockholder Associated Person, (a) the class series and number of all shares of stock of the Company which are owned by such stockholder and such Stockholder Associated Person and the nominee holder for, and number of, shares owned beneficially but not of record by such stockholder and by such Stockholder Associated Person and (b) the name and address of such stockholder, as they appear on the Company s stock ledger and current name and address, if different, and of such Stockholder Associated Person; and (iv) to the extent known by the stockholder giving the notice, the name and address of any other stockholder supporting the nominee for election or reelection as a director or the proposal of other business on the date of such stockholder s notice. Stockholder Associated Person of any stockholder means (i) any person controlling, directly or indirectly, or acting in concert with, such stockholder, (ii) any beneficial owner of shares of stock of the Company owned of record or beneficially by such stockholder and (iii) any person controlling, controlled by or under the common control with such Stockholder Associated Person.

Any director nominations received from stockholders will be evaluated in the same manner that nominees suggested by Board members, management or other parties are evaluated.

You may write to the Secretary of the Company at our principal executive office, 560 Mission Street, Suite 2900, San Francisco, California 94105, to deliver the notices discussed above and for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

Householding of Proxy Materials

The SEC has adopted rules that permit companies and intermediaries (such as banks and brokers) to satisfy the delivery requirements for proxy statements and annual reports with respect to two or more stockholders sharing the same address by delivering a single proxy statement addressed to those stockholders. This process, which is commonly referred to as householding, potentially means extra convenience for stockholders and cost savings for companies.

This year, a number of brokers with account holders who are our stockholders will be householding the Company s proxy materials. A single proxy statement will be delivered to multiple stockholders sharing an address unless contrary instructions have been received from the impacted stockholders. Once you have received notice from your broker that they will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent. If, at any time, you no longer wish to participate in householding and would prefer to receive a separate Proxy Statement and annual report, please notify your broker, direct your written request to Investor Relations, Digital Realty Trust, Inc., 560 Mission Street, Suite 2900, San Francisco, California 94105, or contact Investor Relations by telephone at (415) 738-6500. Stockholders who currently receive multiple copies of the Proxy Statement at their address and would like to request householding of their communications should contact their broker.

By Order of Our Board of Directors

A. William Stein

Chief Financial Officer, Chief Investment Officer and Secretary

March 30, 2007

Appendix A

FIRST AMENDED AND RESTATED

DIGITAL REALTY TRUST, INC., DIGITAL SERVICES, INC. AND

DIGITAL REALTY TRUST, L.P.

2004 INCENTIVE AWARD PLAN

ARTICLE 1

PURPOSE

The purpose of the First Amended and Restated Digital Realty Trust, Inc., Digital Services, Inc. and Digital Realty Trust, L.P. 2004 Incentive Award Plan (the *Plan*) is to promote the success and enhance the value of Digital Realty Trust, Inc., a Maryland corporation (the *Company*), Digital Services, Inc., a Maryland corporation (the *Services Company*), and Digital Realty Trust, L.P. (the *Partnership*) by linking the personal interests of Employees, Consultants, members of the Board, and Services Company Directors to those of the Company s stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Company s stockholders. The Plan is further intended to provide flexibility to the Company, the Services Company, the Partnership and their subsidiaries in their ability to motivate, attract, and retain the services of those individuals upon whose judgment, interest, and special effort the successful conduct of the Company s, the Service Company s and the Partnership s operation is largely dependent. The Plan amends and restates in its entirety the Digital Realty Trust, Inc., Digital Services, Inc. and Digital Realty Trust, L.P. 2004 Incentive Award Plan (the *Original Plan*).

ARTICLE 2

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 *Award* means an Option, a Restricted Stock award, a Stock Appreciation Right award, a Performance Share award, a Performance Stock Unit award, a Dividend Equivalents award, a Stock Payment award, a Deferred Stock award, a Restricted Stock Unit award, a Profits Interest Unit award, an Other Incentive Award, a Performance Bonus Award, or a Performance-Based Award granted to a Participant pursuant to the Plan.

2.2 *Award Agreement* means any written agreement, contract, or other instrument or document evidencing an Award.

2.3 *Board* means the Board of Directors of the Company.

2.4 *Change in Control* means the occurrence of any of the following events:

(a) the acquisition, directly or indirectly, by any person or group (as those terms are defined in Sections 3(a)(9), 13(d), and 14(d) of the Exchange Act and the rules thereunder) of beneficial ownership (as determined pursuant to Rule 13d-3 under the Exchange Act) of securities entitled to vote generally in the election of directors (voting securities) of the Company that represent 35% or more of the combined voting power of the Company s then outstanding voting securities, other than

(i) an acquisition of securities by a trustee or other fiduciary holding securities under any employee benefit plan (or related trust) sponsored or maintained by the Company or any person controlled by the

Company or by any employee benefit plan (or related trust) sponsored or maintained by the Company or any person controlled by the Company, or

(ii) an acquisition of securities by the Company or a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of the stock of the Company, or

(iii) an acquisition of securities pursuant to a transaction described in Section 2.4(c) below that would not be a Change in Control under Section 2.4(c), or

(iv) any direct or indirect acquisition of securities by Global Innovation Partners, LLC or California Public Employees Retirement System (CALPERS), or any affiliate thereof;

Notwithstanding the foregoing, the following event shall not constitute an acquisition by any person or group for purposes of this Section 2.4(a): an acquisition of the Company s securities by the Company which causes the Company s voting securities beneficially owned by a person or group to represent 35% or more of the combined voting power of the Company s then outstanding voting securities; *provided, however,* that if a person or group shall become the beneficial owner of 35% or more of the combined voting power of the Company s then outstanding voting securities by reason of share acquisitions by the Company as described above and shall, after such share acquisitions by the Company, become the beneficial owner of any additional voting securities of the Company, then such acquisition shall constitute a Change in Control;

(b) individuals who, as of the date of the closing of the initial public offering of the Stock, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; *provided, however,* that any individual becoming a director subsequent to the date hereof whose election by the Company s stockholders, or nomination for election by the Board, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board;

(c) the consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company s assets or (z) the acquisition of assets or stock of another entity, in each case, other than a transaction

(i) which results in the Company s voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company s assets or otherwise succeeds to the business of the Company (the Company or such person, the Successor Entity)) directly or indirectly, at least a majority of the combined voting power of the Successor Entity s outstanding voting securities immediately after the transaction, and

(ii) after which no person or group, other than Global Innovation Partners, LLC or California Public Employees Retirement System (CALPERS), or any affiliate thereof, beneficially owns voting securities representing 35% or more of the combined voting power of the Successor Entity; *provided, however,* that no person or group shall be treated for purposes of this clause (B) as beneficially owning 35% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

(d) approval by the Company s stockholders of a liquidation or dissolution of the Company.

For purposes of Section 2.4(a) above, the calculation of voting power shall be made as if the date of the acquisition were a record date for a vote of the Company s stockholders, and for purposes of Section 2.4(c) above, the calculation of voting power shall be made as if the date of the consummation of the transaction were a record date for a vote of the Company s stockholders. The Committee shall have full and final authority, which

shall be exercised in its discretion, to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, and the date of the occurrence of such Change in Control and any incidental matters relating thereto.

2.5 *Code* means the Internal Revenue Code of 1986, as amended.

2.6 *Committee* means the committee of the Board described in Article 12.

2.7 *Company Consultant* means any consultant or adviser if:

(a) The consultant or adviser renders bona fide services to the Company or Company Subsidiary;

(b) The services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company s securities; and

(c) The consultant or adviser is a natural person who has contracted directly with the Company or Company Subsidiary to render such services.

2.8 *Company Employee* means any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Company or of any Company Subsidiary.

2.9 *Company Subsidiary* means (i) a corporation, association or other business entity of which 50% or more of the total combined voting power of all classes of capital stock is owned, directly or indirectly, by the Company or by one or more Company Subsidiaries or by the Company and one or more Company Subsidiaries, (ii) any partnership or limited liability company of which 50% or more of the capital and profits interests is owned, directly or indirectly, by the Company or by one or more Company Subsidiaries or by the Company and one or more Company Subsidiaries, and (iii) any other entity not described in clauses (i) or (ii) above of which 50% or more of the ownership and the power, pursuant to a written contract or agreement, to direct the policies and management or the financial and the other affairs thereof, are owned or controlled by the Company or by one or more other Company Subsidiaries or by the Company and one or more Company Subsidiaries; *provided, however*, that Company Subsidiary shall not include the Services Company, any Services Company Subsidiary, the Partnership or any Partnership Subsidiary.

2.10 *Consultant* means any Company Consultant, Services Company Consultant or Partnership Consultant.

2.11 *Covered Employee* means a Company Employee who is, or could be, a covered employee within the meaning of Section 162(m) of the Code.

2.12 *Deferred Stock* means a right to receive a specified number of shares of Stock during specified time periods pursuant to Article 8.

2.13 *Disability* means that the Participant qualifies to receive long-term disability payments under the Company s or the Partnership s long-term disability insurance program, as it may be amended from time to time.

2.14 *Dividend Equivalents* means a right granted to a Participant pursuant to Article 8 to receive the equivalent value (in cash or Stock) of dividends paid on Stock.

2.15 *Effective Date* shall have the meaning set forth in Section 13.1.

2.16 *Eligible Individual* means any person who is an Employee, a Consultant, a member of the Board or a Services Company Director, as determined by the Committee.

2.17 *Employee* means any Company Employee, Services Company Employee or Partnership Employee.

2.18 *Exchange Act* means the Securities Exchange Act of 1934, as amended.

2.19 *Fair Market Value* means, as of any given date, (a) if Stock is traded on an exchange, the closing price of a share of Stock as reported in the *Wall Street Journal* (or such other source as the Company may deem reliable for such purposes) for such date, or if no sale occurred on such date, the first trading date immediately prior to such date during which a sale occurred; or (b) if Stock is not traded on an exchange but is quoted on a quotation system, the mean between the closing representative bid and asked prices for the Stock on such date, or if no sale occurred on such date, the first date immediately prior to such date on which sales prices or bid and asked prices, as applicable, are reported by such quotation system; or (c) if Stock is not publicly traded, the fair market value established by the Committee acting in good faith.

2.20 *Incentive Stock Option* means an Option that is intended to meet the requirements of Section 422 of the Code or any successor provision thereto.

2.21 *Independent Director* means a member of the Board who is not an Employee.

2.22 *Non-Employee Director* means a member of the Board who qualifies as a non-employee director as defined in Rule 16b-3(b)(3) of the Exchange Act, or any successor definition adopted by the Board.

2.23 *Non-Qualified Stock Option* means an Option that is not intended to be an Incentive Stock Option or which is designated as an Incentive Stock Option but does not conform to the applicable provisions of Section 422 of the Code.

2.24 *Option* means a right granted to a Participant pursuant to Article 5 of the Plan to purchase a specified number of shares of Stock at a specified price during specified time periods. An Option may be either an Incentive Stock Option or a Non-Qualified Stock Option.

2.25 *Other Incentive Award* means an Award granted, based upon or denominated in Stock or units of Stock pursuant to Section 8.8 of the Plan.

2.26 *Participant* means a person who, as an Employee, Consultant, member of the Board, or Services Company Director, has been granted an Award pursuant to the Plan.

2.27 *Partnership Agreement* means the Amended and Restated Agreement of Limited Partnership of Digital Realty Trust, L.P., as the same may be amended, modified or restated from time to time.

2.28 *Partnership Consultant* means any consultant or advisor if:

(a) The consultant or adviser renders bona fide services to the Partnership or Partnership Subsidiary;

(b) The services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Partnership s securities; and

(c) The consultant or adviser is a natural person who has contracted directly with the Partnership or Partnership Subsidiary to render such services.

2.29 *Partnership Employee* means any employee (as defined in accordance with Section 3401(c) of the Code) of the Partnership or any entity which is then a Partnership Subsidiary.

2.30 *Partnership Participant Purchased Shares* has the meaning set forth in Section 5.6.

2.31 *Partnership Purchase Price* has the meaning set forth in Section 5.6.

2.32 *Partnership Purchased Shares* has the meaning set forth in Section 5.6.

2.33 *Partnership Subsidiary* means (i) a corporation, association or other business entity of which 50% or more of the total combined voting power of all classes of capital stock is owned, directly or indirectly, by the Partnership or by one or more Partnership Subsidiaries or by the Partnership and one or more Partnership Subsidiaries, (ii) any partnership or limited liability company of which 50% or more of the capital and profits interests is owned, directly or indirectly, by the Partnership or by one or more Partnership Subsidiaries or by the Partnership and one or more Partnership Subsidiaries, and (iii) any other entity not described in clauses (i) or (ii) above of which 50% or more of the ownership and the power, pursuant to a written contract or agreement, to direct the policies and management or the financial and the other affairs thereof, are owned or controlled by the Partnership or by one or more other Partnership Subsidiaries or by the Partnership and one or more Partnership Subsidiaries; *provided, however,* that Partnership Subsidiary shall not include the Services Company or any Services Company Subsidiary.

2.34 *Performance-Based Award* means an Award granted to selected Covered Employees pursuant to Articles 6 and 8, but which is subject to the terms and conditions set forth in Article 9. All Performance-Based Awards are intended to qualify as Qualified Performance-Based Compensation.

2.35 *Performance Bonus Award* has the meaning set forth in Section 8.9.

2.36 *Performance Criteria* means the criteria that the Committee selects for purposes of establishing the Performance Goal or Performance Goals for a Participant for a Performance Period. The Performance Criteria that will be used to establish Performance Goals are limited to the following: net earnings (either before or after interest, taxes, depreciation and amortization), funds from operations, adjusted funds from operations, cash available for distribution, economic value-added (as determined by the Committee), sales or revenue, net income (either before or after taxes), operating earnings, cash flow (including, but not limited to, operating cash flow and free cash flow), cash flow return on capital, return on net assets, return on stockholders equity, return on assets, return on capital, stockholder returns, return on sales, gross or net profit margin, productivity, expense, margins, operating efficiency, customer satisfaction, working capital, earnings per share, price per share of Stock, and market share, any of which may be measured either in absolute terms, by comparison to comparable performance in an earlier period or periods, or as compared to results of a peer group, industry index, or other company or companies. The Committee shall, within the time prescribed by Section 162(m) of the Code, define in an objective fashion the manner of calculating the Performance Criteria it selects to use for such Performance Period for such Participant.

2.37 *Performance Goals* means, for a Performance Period, the goals established in writing by the Committee for the Performance Period based upon the Performance Criteria. Depending on the Performance Criteria used to establish such Performance Goals, the Performance Goals may be expressed in terms of overall performance of the Company, the Services Company, the Partnership, any Subsidiary, any division or business unit thereof, or an individual. The Committee, in its discretion, may, within the time prescribed by Section 162(m) of the Code, adjust or modify the calculation of Performance Goals for such Performance Period in order to prevent the dilution or enlargement of the rights of Participants (i) in the event of, or in anticipation of, any unusual or extraordinary corporate item, transaction, event, or development, or (ii) in recognition of, or in anticipation of, any other unusual or nonrecurring events affecting the Company, the Services Company, the Partnership or any Subsidiary, or the financial statements of the Company, the Services Company, the Partnership or any Subsidiary, or in response to, or in anticipation of, changes in applicable laws, regulations, accounting principles, or business conditions.

2.38 *Performance Period* means the one or more periods of time, which may be of varying and overlapping durations, as the Committee may select, over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant s right to, and the payment of, a Performance-Based Award.

2.39 *Performance Share* means a right granted to a Participant pursuant to Article 8, to receive Stock, the payment of which is contingent upon achieving certain Performance Goals or other performance-based targets established by the Committee.

2.40 *Performance Stock Unit* means a right granted to a Participant pursuant to Article 8, to receive Stock, the payment of which is contingent upon achieving certain performance goals established by the Committee.

2.41 *Plan* means this First Amended and Restated Digital Realty Trust, Inc., Digital Services, Inc. and Digital Realty Trust, L.P. 2004 Incentive Award Plan, as it may be amended from time to time.

2.42 *Pricing Date* has the meaning set forth in Section 8.10(a).

2.43 *Profits Interest Unit* means a Profits Interest Unit of the Partnership, as defined in the Partnership Agreement.

2.44 *Public Trading Date* means the first date upon which Stock is listed (or approved for listing) upon notice of issuance on any securities exchange or designated (or approved for designation) upon notice of issuance as a national market security on an interdealer quotation system.

2.45 *Qualified Performance-Based Compensation* means any compensation that is intended to qualify as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code.

2.46 *REIT* means a real estate investment trust within the meaning of Sections 856 through 860 of the Code.

2.47 *Restricted Stock* means Stock awarded to a Participant pursuant to Article 6 that is subject to certain restrictions and may be subject to risk of forfeiture.

2.48 *Restricted Stock Unit* means an Award granted pursuant to Section 8.6.

2.49 *Services Company* means Digital Services, Inc., a Maryland corporation.

2.50 *Services Company Consultant* means any consultant or advisor if:

(a) The consultant or adviser renders bona fide services to the Services Company or Services Company Subsidiary;

(b) The services rendered by the consultant or adviser are not in connection with the offer or sale of securities in a capital-raising transaction and do not directly or indirectly promote or maintain a market for the Company s securities; and

(c) The consultant or adviser is a natural person who has contracted directly with the Services Company or Services Company Subsidiary to render such services.

2.51 *Services Company Director* means a member of the Board of Directors of the Services Company.

2.52 *Services Company Employee* means any officer or other employee (as defined in accordance with Section 3401(c) of the Code) of the Services Company or of any corporation, partnership or limited liability company which is then a Services Company Subsidiary.

2.53 *Services Company Participant Purchased Shares* has the meaning set forth in Section 5.7.

2.54 *Services Company Purchase Price* has the meaning set forth in Section 5.7.

2.55 *Services Company Purchased Shares* has the meaning set forth in Section 5.7.

2.56 *Services Company Subsidiary* means (i) a corporation, association or other business entity of which 50% or more of the total combined voting power of all classes of capital stock is owned, directly or indirectly, by the Services Company or by one or more Services Company Subsidiaries or by the Services Company and one or more Services Company Subsidiaries, (ii) any partnership or limited liability company of which 50% or more of the capital and profits interests is owned, directly or indirectly, by the Services Company or by one or more Services Company Subsidiaries or by the Services Company and one or more Services Company Subsidiaries, and (iii) any other entity not described in clauses (i) or (ii) above of which 50% or more of the ownership and the power, pursuant to a written contract or agreement, to direct the policies and management or the financial and the other affairs thereof, are owned or controlled by the Services Company or by one or more other Services Company Subsidiaries or by the Services Company and one or more Services Company Subsidiaries.

2.57 *Stock* means the common stock of the Company, par value $0.01 per share, and such other securities of the Company that may be substituted for Stock pursuant to Article 11.

2.58 *Stock Appreciation Right* or *SAR* means a right granted pursuant to Article 7 to receive a payment equal to the excess of the Fair Market Value of a specified number of shares of Stock on the date the SAR is exercised over the Fair Market Value on the date the SAR was granted as set forth in the applicable Award Agreement.

2.59 *Stock Payment* means (a) a payment in the form of shares of Stock, or (b) an option or other right to purchase shares of Stock, as part of any bonus, deferred compensation or other arrangement, made in lieu of all or any portion of the compensation, granted pursuant to Article 8.

2.60 *Subsidiary* means any Company Subsidiary, Services Company Subsidiary or Partnership Subsidiary.

ARTICLE 3

SHARES SUBJECT TO THE PLAN

3.1 *Number of Shares*.

(a) Subject to Article 11 and Section 3.1(b), the aggregate number of shares of Stock which may be issued or transferred pursuant to Awards (including, without limitation, Incentive Stock Options) under the Plan shall be 9,474,102. Each Profits Interest Unit issued pursuant to an Award shall count as one share of Stock for purposes of calculating the aggregate number of shares of Stock available for issuance under the Plan as set forth in this Section 3.1(a) and for purposes of calculating the share limitation set forth in Section 3.3.

(b) To the extent that an Award terminates, expires, or lapses for any reason, any shares of Stock subject to the Award shall again be available for the grant of an Award pursuant to the Plan. Any shares of Stock tendered or withheld to satisfy the grant or exercise price or tax withholding obligation pursuant to any Award shall be counted as issued or transferred under the Plan and shall not subsequently be available for the grant of an Award pursuant to the Plan. To the extent permitted by applicable law or any exchange rule, shares of Stock issued in assumption of, or in substitution for, any outstanding awards of any entity acquired in any form of combination by the Company or any Subsidiary shall not be counted against shares of Stock available for grant pursuant to this Plan. The payment of Dividend Equivalents in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards), and make adjustments if the number of shares of Stock actually delivered differs from the number of shares previously counted in connection with an Award. Notwithstanding the foregoing, no shares shall become available pursuant to this Section 3.1(b) to the extent that (x) the transaction resulting in the return of shares occurs more than ten

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years after the date of the most recent shareholder approval of the Plan, or (y) such return of shares would constitute a material revision of the Plan subject to stockholder approval under then applicable rules of the New York Stock Exchange (or any other applicable exchange or quotation system).

3.2 *Stock Distributed*. Any Stock distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Stock, treasury Stock or Stock purchased on the open market.

3.3 *Limitation on Number of Shares Subject to Awards*. Notwithstanding any provision in the Plan to the contrary, and subject to Article 11, the maximum number of shares of Stock with respect to one or more Awards that may be granted to any one Participant during any calendar year shall 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 shall be $10,000,000.

ARTICLE 4

ELIGIBILITY AND PARTICIPATION

4.1 *Eligibility*. Each Eligible Individual shall be eligible to be granted one or more Awards pursuant to the Plan.

4.2 *Participation*. Subject to the provisions of the Plan, the Committee may, from time to time, select from among all Eligible Individuals, those to whom Awards shall be granted and shall determine the nature and amount of each Award. No individual shall have any right to be granted an Award pursuant to this Plan.

4.3 *Foreign Participants*. In order to assure the viability of Awards granted to Participants employed in foreign countries, the Committee may provide for such special terms as it may consider necessary or appropriate to accommodate differences in local law, tax policy, or custom. Moreover, the Committee may approve such supplements to, or amendments, restatements, or alternative versions of, the Plan as it may consider necessary or appropriate for such purposes without thereby affecting the terms of the Plan as in effect for any other purpose; *provided, however*, that no such supplements, amendments, restatements, or alternative versions shall increase the share limitations contained in Sections 3.1 and 3.3 of the Plan.

ARTICLE 5

STOCK OPTIONS

5.1 *General*. The Committee is authorized to grant Options to Participants on the following terms and conditions:

(a) *Exercise Price*. The exercise price per share of Stock subject to an Option shall be determined by the Committee and set forth in the Award Agreement; *provided* that the exercise price for any Option shall not be less than 100% of the Fair Market Value of a share of Stock on the date of grant.

(b) *Time and Conditions of Exercise*. The Committee shall determine the time or times at which an Option may be exercised in whole or in part; *provided* that the term of any Option granted under the Plan shall not exceed ten years. The Committee shall also determine the performance or other conditions, if any, that must be satisfied before all or part of an Option may be exercised.

(c) *Payment*. The Committee shall determine the methods by which the exercise price of an Option may be paid, the form of payment, including, without limitation, (i) cash, (ii) shares of Stock held for such period of time as may be required by the Committee in order to avoid adverse accounting consequences and having a Fair Market Value on the date of delivery equal to the aggregate exercise price of the Option or exercised portion thereof, or (iii) other property acceptable to the Committee (including through the delivery of a notice that the Participant has placed a market sell order with a broker with respect to shares of Stock

then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the Option exercise price; *provided* that payment of such proceeds is then made to the Company upon settlement of such sale), and the methods by which shares of Stock shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a member of the Board or an executive officer of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to pay the exercise price of an Option in any method which would violate Section 13(k) of the Exchange Act.

(d) *Evidence of Grant*. All Options shall be evidenced by a written Award Agreement between the Company and the Participant. The Award Agreement shall include such additional provisions as may be specified by the Committee.

5.2 *Incentive Stock Options*. The terms of any Incentive Stock Options granted pursuant to the Plan must comply with the conditions and limitations contained in Section 13.2 and this Section 5.2:

(a) *Eligibility*. Incentive Stock Options may be granted only to Company Employees or to Employees of a Subsidiary which constitutes a subsidiary corporation within the meaning of Section 424(f) of the Code.

(b) *Exercise Price*. The exercise price per share of Stock subject to an Incentive Stock Option shall be set by the Committee but shall not be less than 100% of the Fair Market Value on the date of grant.

(c) *Individual Dollar Limitation*. The aggregate Fair Market Value (determined as of the time the Option is granted) of all shares of Stock with respect to which Incentive Stock Options are first exercisable by a Participant in any calendar year may not exceed $100,000 or such other limitation as imposed by Section 422(d) of the Code, or any successor provision. To the extent that Incentive Stock Options are first exercisable by a Participant in excess of such limitation, the excess shall be considered Non-Qualified Stock Options.

(d) *Ten Percent Owners*. An Incentive Stock Option shall be granted to any individual who, at the date of grant, owns stock possessing more than ten percent of the total combined voting power of all classes of Stock of the Company only if such Option is granted at a price that is not less than 110% of Fair Market Value on the date of grant and the Option is exercisable for no more than five years from the date of grant.

(e) *Notice of Disposition*. The Participant shall give the Company prompt notice of any disposition of shares of Stock acquired by exercise of an Incentive Stock Option if such disposition occurs within (i) two years from the date of grant of such Incentive Stock Option or (ii) one year after the transfer of such shares of Stock to the Participant.

(f) *Right to Exercise*. During a Participant s lifetime, an Incentive Stock Option may be exercised only by the Participant.

5.3 *Substitution of Stock Appreciation Rights*. The Committee may provide in the Award Agreement evidencing the grant of an Option that the Committee, in its sole discretion, shall have to right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option, subject to the provisions of Section 7.2 hereof; provided that such Stock Appreciation Right shall be exercisable for the same number of shares of Stock as such substituted Option would have been exercisable for and shall have a per share exercise price which is not less than the per share exercise price of such substituted Option.

5.4 *Granting of Options to Independent Directors*. The Board may from time to time, in its sole discretion, and subject to the limitations of the Plan:

(a) Select from among the Independent Directors (including Independent Directors who have previously been granted Options under the Plan) such of them as in its opinion should be granted Options;

(b) Subject to Section 3.3, determine the number of shares of Stock that may be purchased upon exercise of the Options granted to such selected Independent Directors; and

(c) Subject to the provisions of this Article 5, determine the terms and conditions of such Options, consistent with the Plan

5.5 *Transfer of Shares to a Company Employee, Consultant or Independent Director*. As soon as practicable after receipt by the Company of payment for the shares with respect to which an Option (which in the case of a Company Employee, Company Consultant or Independent Director was issued to and is held by such Participant in such capacity), or portion thereof, is exercised by a Participant who is a Company Employee, Company Consultant or Independent Director, then, with respect to each such exercise, the Company shall transfer to the Participant the number of shares equal to:

(a) The amount of the payment made by the Participant to the Company pursuant to Section 5.1(c), divided by

(b) The price per share of the shares subject to the Option as determined pursuant to Section 5.1(a) or 5.2(a), as applicable.

5.6 *Transfer of Shares to a Partnership Employee or Consultant*. As soon as practicable after receipt by the Company, pursuant to Section 5.1(c), of payment for the shares with respect to which an Option (which was issued to and is held by a Partnership Employee or Partnership Consultant in such capacity), or portion thereof, is exercised by a Participant who is a Partnership Employee or Partnership Consultant, then, with respect to each such exercise:

(a) the Company shall transfer to the Participant the number of shares equal to (A) the amount of the payment made by the Participant to the Company pursuant to Section 5.1(c) divided by (B) the Fair Market Value of a share of Common Stock at the time of exercise (the *Partnership Participant Purchased Shares*);

(b) the Company shall sell to the Partnership the number of shares (the *Partnership Purchased Shares*) equal to the excess of (i) the amount obtained by dividing (A) the amount of the payment made by the Participant to the Company pursuant to Section 5.1(c) by (B) the price per share of the shares subject to the Option as determined pursuant to Section 5.1(a), over (ii) the Partnership Participant Purchased Shares. The price to be paid by the Partnership to the Company for the Partnership Purchased Shares (the *Partnership Purchase Price*) shall be an amount equal to the product of (x) the number of Partnership Purchased Shares multiplied by (y) the Fair Market Value of a share of Common Stock at the time of the exercise; and

(c) as soon as practicable after receipt of the Partnership Purchased Shares by the Partnership, the Partnership shall transfer such shares to the Participant at no additional cost, as additional compensation.

5.7 *Transfer of Shares to a Services Company Employee, Consultant or Director*. As soon as practicable after receipt by the Company, pursuant to Section 5.1(c), of payment for the shares with respect to which an Option (which was issued to and is held by a Services Company Employee, Services Company Director or Services Company Consultant in such capacity), or portion thereof, is exercised by a Participant who is a Services Company Employee, Services Company Director or Services Company Consultant, then, with respect to each such exercise:

(a) the Company shall transfer to the Participant the number of shares equal to (A) the amount of the payment made by the Participant to the Company pursuant to Section 5.1(c) divided by (B) the Fair Market Value of a share of Common Stock at the time of exercise (the *Services Company Participant Purchased Shares*);

(b) the Company shall sell to the Services Company the number of shares (the *Services Company Purchased Shares*) equal to the excess of (i) the amount obtained by dividing (A) the amount of the payment made by the Participant to the Company pursuant to Section 5.1(c) by (B) the price per share of the shares subject to the Option as determined pursuant to Section 5.1(a), over (ii) the Services Company Participant Purchased Shares. The price to be paid by the Services Company to the Company for the

Services Company Purchased Shares (the *Services Company Purchase Price*) shall be an amount equal to the product of (x) the number of Services Company Purchased Shares multiplied by (y) the Fair Market Value of a share of Common Stock at the time of the exercise; and

(c) as soon as practicable after receipt of the Services Company Purchased Shares by the Services Company, the Services Company shall transfer such shares to the Participant at no additional cost, as additional compensation.

5.8 *Transfer of Payment to the Partnership*. As soon as practicable after receipt by the Company of the amounts described in Sections 5.1(c), 5.6(b) and 5.7(b), the Company shall contribute to the Partnership an amount of cash equal to such payments and the Partnership shall issue an additional interest in the Partnership on the terms set forth in the Partnership Agreement.

ARTICLE 6

RESTRICTED STOCK AWARDS

6.1 *Grant of Restricted Stock*. The Committee is authorized to make Awards of Restricted Stock to any Participant selected by the Committee in such amounts and subject to such terms and conditions as determined by the Committee. All Awards of Restricted Stock shall be evidenced by a written Restricted Stock Award Agreement.

6.2 *Issuance and Restrictions*. Restricted Stock shall be subject to such restrictions on transferability and other restrictions as the Committee may impose (including, without limitation, limitations on the right to vote Restricted Stock or the right to receive dividends on the Restricted Stock). These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter.

6.3 *Forfeiture*. Except as otherwise determined by the Committee at the time of the grant of the Award or thereafter, upon termination of employment or service during the applicable restriction period, Restricted Stock that is at that time subject to restrictions shall be forfeited; *provided, however*, that the Committee may (a) provide in any Restricted Stock Award Agreement that restrictions or forfeiture conditions relating to Restricted Stock will be waived in whole or in part in the event of terminations resulting from specified causes, and (b) in other cases waive in whole or in part restrictions or forfeiture conditions relating to Restricted Stock.

6.4 *Certificates for Restricted Stock*. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing shares of Restricted Stock are registered in the name of the Participant, certificates must bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company, the Services Company or the Partnership, as applicable, may, at its discretion, retain physical possession of the certificate until such time as all applicable restrictions lapse.

ARTICLE 7

STOCK APPRECIATION RIGHTS

7.1 *Grant of Stock Appreciation Rights*. A Stock Appreciation Right may be granted to any Participant selected by the Committee. A Stock Appreciation Right may be granted (a) in connection and simultaneously with the grant of an Option, (b) with respect to a previously granted Option, or (c) independent of an Option. A Stock Appreciation Right shall be subject to such terms and conditions not inconsistent with the Plan as the Committee shall impose and shall be evidenced by an Award Agreement.

7.2 *Coupled Stock Appreciation Rights*.

(a) A Coupled Stock Appreciation Right (*CSAR*) shall be related to a particular Option and shall be exercisable only when and to the extent the related Option is exercisable.

(b) A CSAR may be granted to a Participant for no more than the number of shares subject to the simultaneously or previously granted Option to which it is coupled.

(c) A CSAR shall entitle the Participant (or other person entitled to exercise the Option pursuant to the Plan) to surrender to the Company the unexercised portion of the Option to which the CSAR relates (to the extent then exercisable pursuant to its terms) and to receive from the Company, the Partnership or the Services Company, as applicable, in exchange therefor an amount determined by multiplying the difference obtained by subtracting the Option exercise price from the Fair Market Value of a share of Stock on the date of exercise of the CSAR by the number of shares of Stock with respect to which the CSAR shall have been exercised, subject to any limitations the Committee may impose.

7.3 *Independent Stock Appreciation Rights*.

(a) An Independent Stock Appreciation Right (ISAR) shall be unrelated to any Option and shall have a term set by the Committee. An ISAR shall be exercisable in such installments as the Committee may determine. An ISAR shall cover such number of shares of Stock as the Committee may determine. The exercise price per share of Stock subject to each ISAR shall be set by the Committee; *provided* that the exercise price for any ISAR shall not be less than 100% of the Fair Market Value on the date of grant; and *provided*, *further*, that, the Committee in its sole and absolute discretion may provide that the ISAR may be exercised subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant s retirement, death or Disability, or otherwise.

(b) An ISAR shall entitle the Participant (or other person entitled to exercise the ISAR pursuant to the Plan) to exercise all or a specified portion of the ISAR (to the extent then exercisable pursuant to its terms) and to receive from the Company, the Partnership or the Services Company, as applicable, an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the ISAR from the Fair Market Value of a share of Stock on the date of exercise of the ISAR by the number of shares of Stock with respect to which the ISAR shall have been exercised, subject to any limitations the Committee may impose.

7.4 *Payment and Limitations on Exercise*.

(a) Payment of the amounts determined under Sections 7.2(c) and 7.3(b) above shall be in cash, in Stock (based on its Fair Market Value as of the date the Stock Appreciation Right is exercised) or a combination of both, as determined by the Committee.

(b) To the extent any payment under Section 7.2(c) or 7.3(b) is effected in Stock it shall be made subject to satisfaction of all provisions of Article 5 above pertaining to Options.

ARTICLE 8

OTHER TYPES OF AWARDS

8.1 *Performance Share Awards*. Any Participant selected by the Committee may be granted one or more Performance Share awards which shall be denominated in a number of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee.

8.2 *Performance Stock Units*. Any Participant selected by the Committee may be granted one or more Performance Stock Unit awards which shall be denominated in units of value including dollar value of shares of Stock and which may be linked to any one or more of the Performance Criteria or other specific performance

criteria determined appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee.

8.3 *Dividend Equivalents*.

(a) Any Participant selected by the Committee may be granted Dividend Equivalents based on the dividends declared on the shares of Stock that are subject to any Award, to be credited as of dividend payment dates, during the period between the date the Award is granted and the date the Award is exercised, vests or expires, as determined by the Committee. Such Dividend Equivalents shall be converted to cash or additional shares of Stock by such formula and at such time and subject to such limitations as may be determined by the Committee.

(b) Dividend Equivalents granted with respect to Options or SARs that are intended to be Qualified Performance-Based Compensation shall be payable, with respect to pre-exercise periods, regardless of whether such Option or SAR is subsequently exercised.

8.4 *Stock Payments*. Any Participant selected by the Committee may receive Stock Payments in the manner determined from time to time by the Committee. The number of shares shall be determined by the Committee and may be based upon the Performance Criteria or other specific performance criteria determined appropriate by the Committee, determined on the date such Stock Payment is made or on any date thereafter.

8.5 *Deferred Stock*. Any Participant selected by the Committee may be granted an award of Deferred Stock in the manner determined from time to time by the Committee. The number of shares of Deferred Stock shall be determined by the Committee and may be linked to the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Stock underlying a Deferred Stock award will not be issued until the Deferred Stock award has vested, pursuant to a vesting schedule or performance criteria set by the Committee. Unless otherwise provided by the Committee, a Participant awarded Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Deferred Stock Award has vested and the Stock underlying the Deferred Stock Award has been issued.

8.6 *Restricted Stock Units*. Any Participant selected by the Committee may be granted an award of Restricted Stock Units in such amount and subject to such terms and conditions as may be determined by the Committee. At the time of grant, the Committee shall specify the date or dates on which the Restricted Stock Units shall become vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate. At the time of grant, the Committee shall specify the maturity date applicable to each grant of Restricted Stock Units which shall be no earlier than the vesting date or dates of the Award and may be determined at the election of the grantee. On the maturity date, the Company, the Services Company or the Partnership, as applicable, shall transfer to the Participant one unrestricted, fully transferable share of Stock for each Restricted Stock Unit scheduled to be paid out on such date and not previously forfeited. The Committee shall specify the purchase price, if any, to be paid by the grantee to the Company, the Services Company or the Partnership, as applicable, for such shares of Stock.

8.7 *Profits Interest Units*. Any Participant selected by the Committee may be granted an award of Profits Interest Units in such amount and subject to such terms and conditions as may be determined by the Committee; *provided, however,* that Profits Interest Units may only be issued to a Participant for the performance of services to or for the benefit of the Partnership in the Participant s capacity as a partner of the Partnership. At the time of grant, the Committee shall specify the date or dates on which the Profits Interest Units shall vest and become nonforfeitable, and may specify such conditions to vesting as it deems appropriate. Profits Interest Units shall be subject to such restrictions on transferability and other restrictions as the Committee may impose. These restrictions may lapse separately or in combination at such times, pursuant to such circumstances, in such

installments, or otherwise, as the Committee determines at the time of the grant of the Award or thereafter. The Committee shall specify the purchase price, if any, to be paid by the grantee to the Partnership for the Profits Interest Units.

8.8 *Other Incentive Awards*. Any Participant selected by the Committee may be granted one or more Awards that provide Participants with shares of Stock or the right to purchase shares of Stock or that have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise based on or payable in shares of Stock (including, without limitation, convertible or exchangeable securities), in each case on a specified date or dates or over any period or periods determined by the Committee. Other Incentive Awards may be linked to any one or more of the Performance Criteria or other specific performance criteria determined appropriate by the Committee.

8.9 *Performance Bonus Awards*. Any Participant selected by the Committee may be granted a cash bonus (a *Performance Bonus Award*) payable upon the attainment of Performance Goals that are established by the Committee and relate to one or more of the Performance Criteria or other specific performance criteria determined to be appropriate by the Committee, in each case on a specified date or dates or over any period or periods determined by the Committee. Any such Performance Bonus Award paid to a Covered Employee may be a Performance-Based Award and be based upon objectively determinable bonus formulas established in accordance with Article 9.

8.10 *Granting of Profits Interest Units to Independent Directors*.

(a) During the term of the Plan, each person who is an Independent Director as of the effective date of the Registration Statement on Form S-11 with respect to the initial public offering of shares of Stock (the *Pricing Date*) automatically shall be granted (i) 6,448 Profits Interest Units on the Pricing Date, and (ii) 1,000 Profits Interest Units on the date of each annual meeting of stockholders after the Public Trading Date at which the Independent Director is reelected to the Board, commencing with the third annual meeting after the Public Trading Date. During the term of the Plan, each person who is initially elected to the Board after the Pricing Date and who is an Independent Director at the time of such initial election automatically shall be granted (I) 6,448 Profits Interest Units on the date of such initial election, and (II) 1,000 Profits Interest Units on the date of each annual meeting of stockholders after such initial election at which the Independent Director is reelected to the Board, commencing with the third annual meeting after such initial election. Each Award of Profits Interest Units described in clause (i) of the first sentence of this subsection (a) or clause (I) of the immediately preceding sentence is referred to herein as an *Initial Director Award* and each Award of Profits Interest Units described in clause (ii) of the first sentence of this subsection (a) or clause (II) of the immediately preceding sentence is referred to herein as a *Subsequent Director Award*. Members of the Board who are employees of the Company, the Partnership, the Services Company, or any Subsidiary who subsequently retire from employment with such entities and remain on the Board will not receive an Initial Director Award, but to the extent they are otherwise eligible, will receive, after retirement from such employment, Subsequent Director Awards. Notwithstanding the foregoing, in the event that an Independent Director does not qualify as an accredited investor within the meaning of Regulation D of the Securities Act of 1933, as amended, on the date of any grant of Profits Interest Units to such Independent Director pursuant to this Section 8.10, then such Independent Director shall not receive such grant of Profits Interest Units, and in lieu thereof shall automatically be granted an equivalent number of shares of Restricted Stock at a per share purchase price equal to the par value of the Stock, and subject to the same vesting schedule as would have applied to the corresponding grant of Profits Interest Units.

(b) Each Initial Director Award shall be vested in full as of the date of grant. Subject to the Independent Director s continued directorship, each Subsequent Director Award shall vest with respect to 20% of the Profits Interest Units subject thereto on the first anniversary of the date of grant and with respect to an additional 1/60th of the Profits Interest Units subject thereto on each monthly anniversary thereafter. Consistent with the foregoing, the terms and conditions of the Profits Interest Units (including, without

limitation, transfer restrictions with respect thereto) shall be set forth in an Award Agreement to be entered into by the Company and each Independent Director which shall evidence the grant of the Profits Interest Units.

8.11 *Term*. Except as otherwise provided herein, the term of any Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units, Profits Interest Units or Other Incentive Award shall be set by the Committee in its discretion.

8.12 *Exercise or Purchase Price*. The Committee may establish the exercise or purchase price, if any, of any Award of Performance Shares, Performance Stock Units, Deferred Stock, Stock Payments, Restricted Stock Units or Other Incentive Award; *provided, however*, that such price shall not be less than the par value of a share of Stock on the date of grant, unless otherwise permitted by applicable state law.

8.13 *Exercise Upon Termination of Employment or Service*. An Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Deferred Stock, Stock Payments, Restricted Stock Units, Profits Interest Units and Other Incentive Award shall only be exercisable or payable while the Participant is an Employee, Consultant, a member of the Board or a Services Company Director, as applicable; *provided, however*, that the Committee in its sole and absolute discretion may provide that an Award of Performance Shares, Performance Stock Units, Dividend Equivalents, Stock Payments, Deferred Stock, Restricted Stock Units, Profits Interest Units or Other Incentive Award may be exercised or paid subsequent to a termination of employment or service, as applicable, or following a Change in Control of the Company, or because of the Participant s retirement, death or Disability, or otherwise; *provided further,* that any such provision with respect to Performance Shares or Performance Stock Units shall be subject to the requirements of Section 162(m) of the Code that apply to Qualified Performance-Based Compensation.

8.14 *Form of Payment*. Payments with respect to any Award granted under this Article 8, other than Profits Interest Units, shall be made in cash, in Stock or a combination of both, as determined by the Committee.

8.15 *Award Agreement*. All Awards under this Article 8 shall be subject to such additional terms and conditions as determined by the Committee and shall be evidenced by a written Award Agreement.

ARTICLE 9

PERFORMANCE-BASED AWARDS

9.1 *Purpose*. The purpose of this Article 9 is to provide the Committee the ability to qualify Awards other than Options and SARs and that are granted pursuant to Articles 6 and 8 as Qualified Performance-Based Compensation. If the Committee, in its discretion, decides to grant a Performance-Based Award to a Covered Employee, the provisions of this Article 9 shall control over any contrary provision contained in Articles 6 or 8; *provided, however*, that the Committee may in its discretion grant Awards to Covered Employees that are based on Performance Criteria or Performance Goals but that do not satisfy the requirements of this Article 9.

9.2 *Applicability*. This Article 9 shall apply only to those Covered Employees selected by the Committee to receive Performance-Based Awards. The designation of a Covered Employee as a Participant for a Performance Period shall not in any manner entitle the Participant to receive an Award for the period. Moreover, designation of a Covered Employee as a Participant for a particular Performance Period shall not require designation of such Covered Employee as a Participant in any subsequent Performance Period and designation of one Covered Employee as a Participant shall not require designation of any other Covered Employees as a Participant in such period or in any other period.

9.3 *Procedures with Respect to Performance-Based Awards*. To the extent necessary to comply with the Qualified Performance-Based Compensation requirements of Section 162(m)(4)(C) of the Code, with respect to

any Award granted under Articles 6 and 8 which may be granted to one or more Covered Employees, no later than ninety (90) days following the commencement of any fiscal year in question or any other designated fiscal period or period of service (or such other time as may be required or permitted by Section 162(m) of the Code), the Committee shall, in writing, (a) designate one or more Covered Employees, (b) select the Performance Criteria applicable to the Performance Period, (c) establish the Performance Goals, and amounts of such Awards, as applicable, which may be earned for such Performance Period, and (d) specify the relationship between Performance Criteria and the Performance Goals and the amounts of such Awards, as applicable, to be earned by each Covered Employee for such Performance Period. Following the completion of each Performance Period, the Committee shall certify in writing whether the applicable Performance Goals have been achieved for such Performance Period. In determining the amount earned by a Covered Employee, the Committee shall have the right to reduce or eliminate (but not to increase) the amount payable at a given level of performance to take into account additional factors that the Committee may deem relevant to the assessment of individual or corporate performance for the Performance Period.

9.4 *Payment of Performance-Based Awards*. Unless otherwise provided in the applicable Award Agreement, a Participant must be employed by the Company or a Company Subsidiary, the Partnership or a Partnership Subsidiary, or the Services Company or a Services Company Subsidiary, on the day a Performance-Based Award for such Performance Period is paid to the Participant. Furthermore, a Participant shall be eligible to receive payment pursuant to a Performance-Based Award for a Performance Period only if the Performance Goals for such period are achieved.

9.5 *Additional Limitations*. Notwithstanding any other provision of the Plan, any Award which is granted to a Covered Employee and is intended to constitute Qualified Performance-Based Compensation shall be subject to any additional limitations set forth in Section 162(m) of the Code (including any amendment to Section 162(m) of the Code) or any regulations or rulings issued thereunder that are requirements for qualification as qualified performance-based compensation as described in Section 162(m)(4)(C) of the Code, and the Plan shall be deemed amended to the extent necessary to conform to such requirements.

ARTICLE 10

PROVISIONS APPLICABLE TO AWARDS

10.1 *Stand-Alone and Tandem Awards*. Awards granted pursuant to the Plan may, in the discretion of the Committee, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

10.2 *Award Agreement*. Awards under the Plan shall be evidenced by Award Agreements that set forth the terms, conditions and limitations for each Award which may include the term of an Award, the provisions applicable in the event the Participant s employment or service terminates, and the Company s authority to unilaterally or bilaterally amend, modify, suspend, cancel or rescind an Award.

10.3 *Limits on Transfer*. No right or interest of a Participant in any Award may be pledged, encumbered, or hypothecated to or in favor of any party other than the Company, the Services Company, the Partnership or a Subsidiary, or shall be subject to any lien, obligation, or liability of such Participant to any other party other than the Company, the Services Company, the Partnership or a Subsidiary. Except as otherwise provided by the Committee, no Award shall be assigned, transferred, or otherwise disposed of by a Participant other than by will or the laws of descent and distribution. The Committee by express provision in the Award or an amendment thereto may permit an Award (other than an Incentive Stock Option) to be transferred to, exercised by and paid to certain persons or entities related to the Participant, including but not limited to members of the Participant s family, charitable institutions, or trusts or other entities whose beneficiaries or beneficial owners are members of the Participant s family and/or charitable institutions, or to such other persons or entities as may be expressly

approved by the Committee, pursuant to such conditions and procedures as the Committee may establish. Any permitted transfer shall be subject to the condition that the Committee receive evidence satisfactory to it that the transfer is being made for estate and/or tax planning purposes (or to a blind trust in connection with the Participant s termination of employment or service with the Company, the Services Company, the Partnership or a Subsidiary to assume a position with a governmental, charitable, educational or similar non-profit institution) and on a basis consistent with the Company s lawful issue of securities.

10.4 *Beneficiaries*. Notwithstanding Section 10.3, a Participant may, in the manner determined by the Committee, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant s death. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Award Agreement applicable to the Participant, except to the extent the Plan and Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Committee. If the Participant is married and resides in a community property state, a designation of a person other than the Participant s spouse as his or her beneficiary with respect to more than 50% of the Participant s interest in the Award shall not be effective without the prior written consent of the Participant s spouse. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant s will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Committee.

10.5 *Certificates; Book Entry Procedures*.

(a) Notwithstanding anything herein to the contrary, neither the Company, the Services Company, nor the Partnership shall be required to issue or deliver any certificates evidencing shares of Stock or other securities pursuant to the grant or exercise of any Award, unless and until the Board has determined, with advice of counsel, that the issuance and delivery of such certificates is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the shares of Stock or other securities are listed or traded. All certificates delivered pursuant to the Plan are subject to any stop-transfer orders and other restrictions as the Committee deems necessary or advisable to comply with federal, state, or foreign jurisdiction, securities or other laws, rules and regulations and the rules of any national securities exchange or automated quotation system on which the such securities are listed, quoted, or traded. The Committee may place legends on any certificate to reference restrictions applicable to the Stock or other securities. In addition to the terms and conditions provided herein, the Board may require that a Participant make such reasonable covenants, agreements, and representations as the Board, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements. The Committee shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement or exercise of any Award, including a window-period limitation, as may be imposed in the discretion of the Committee.

(b) Notwithstanding any other provision of the Plan, unless otherwise determined by the Committee or required by any applicable law, rule or regulation, neither the Company, the Services Company, nor the Partnership shall deliver to any Participant certificates evidencing shares of Stock or other securities issued in connection with any Award and instead such shares of Stock or other securities shall be recorded in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

ARTICLE 11

CHANGES IN CAPITAL STRUCTURE

11.1 *Adjustments*.

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, spin-off, recapitalization or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of Stock or the share price of the Stock, the

Committee shall make proportionate adjustments to any or all of the following in order to reflect such change: (i) the aggregate number and type of shares that may be issued under the Plan (including, but not limited to, adjustments of the limitations in Sections 3.1 and 3.3); (ii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable Performance Goals or Performance Criteria with respect thereto); and (iii) the grant or exercise price per share for any outstanding Awards under the Plan. Any adjustment affecting an Award intended as Qualified Performance-Based Compensation shall be made consistent with the requirements of Section 162(m) of the Code.

(b) In the event of any transaction or event described in Section 11.1(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate (including without limitation any Change in Control), or of changes in applicable laws, regulations or accounting principles, the Committee, in its sole discretion and on such terms and conditions as it deems appropriate, either by