ITT INDUSTRIES INC
Form DEF 14A
April 04, 2006

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SCHEDULE 14A
(Rule 14a-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to Rule 14a-12
o Confidential, for the Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

ITT INDUSTRIES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Steven R. Loranger
Chairman, President and Chief Executive Officer

ITT Industries

4 West Red Oak Lane
White Plains, NY 10604

April 4, 2006

Dear Fellow Shareholders:

Enclosed are the Notice of Annual Meeting and Proxy Statement for ITT Industries 2006 Annual Meeting of Shareholders. As has been the case with our previous Annual Meetings, this year s meeting is intended to address only the business included on the agenda. Details of the business to be conducted at the Annual Meeting are given in the accompanying Notice of Annual Meeting and Proxy Statement, which provides information as required by applicable laws and regulations.

If you are the registered owner of ITT Industries stock, you may vote your shares by making a toll-free telephone call or using the Internet. You also may vote your shares by returning your proxy form by mail. Details of these voting options are explained in the Proxy Statement. You also can find useful instructions on the enclosed proxy card.

If you are a beneficial owner and someone else, such as your bank or broker, is the owner of record, the owner of record will communicate with you about how to vote your shares.

We urge you to complete and return the enclosed proxy as promptly as possible. Your vote is important.

Very truly yours,

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April 4, 2006

NOTICE OF 2006 Annual Meeting

Time:	10:30 a.m. Eastern Time, on Tuesday, May 9, 2006
Place:	Tappan Hill, 81 Highland Avenue, Tarrytown, New York. Directions to Tappan Hill are provided on the back cover of this Proxy Statement.
Items of Business:	1. To elect all nine members of the Board of Directors. 2. To ratify the appointment of Deloitte & Touche LLP as ITT Industries independent auditor for 2006. 3. To vote upon a proposal to amend ITT Industries, Inc. s Restated Articles of Incorporation to change the Company s name to ITT Corporation effective July 1, 2006. 4. To transact such other business as may properly come before the meeting.
Who may vote:	You can vote if you were a shareholder at the close of business on Friday, March 17, 2006, the record date.
Annual Report to Shareholders and Annual Report on Form 10-K:	Copies of our 2005 Annual Report to Shareholders and Annual Report on Form 10-K are enclosed.
Mailing Date:	Beginning April 4, 2006, this Notice and the 2006 Proxy Statement are being sent to shareholders of record on March 17, 2006.
About Proxy Voting:	Your vote is important. Proxy voting permits shareholders unable to attend the annual meeting to vote their shares through a proxy. Most shareholders are unable to attend the Annual Meeting. By appointing a proxy your shares will be represented and voted in accordance with your instructions. If you do not provide instructions on how to vote, the proxies will vote as recommended by the Board of Directors. You can vote your shares by completing and returning your proxy card. Most shareholders can also vote shares by following the Internet or telephone voting instructions provided on the proxy card. You can change your voting instructions or revoke your proxy at anytime prior to the Annual Meeting by following the instructions on the proxy card.

By order of the Board of Directors,

Kathleen S. Stolar
Vice President and Secretary

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Proxy Statement

Why did I receive these proxy materials? Beginning April 4, 2006, this proxy statement is being mailed to shareholders who were shareholders as of the March 17, 2006 record date, as part of the Board of Directors solicitation of proxies for ITT Industries 2006 Annual Meeting and any postponements or adjournments thereof. This proxy statement and ITT Industries 2005 Annual Report to Shareholders and Annual Report on Form 10-K (which have been mailed to shareholders eligible to vote at the 2006 Annual Meeting) contain information that the Board of Directors believes offers an informed view of the Company and meet the regulations of the Securities and Exchange Commission (the SEC) for proxy solicitations.

Who is entitled to vote? You can vote if you owned shares of the Company s common stock as of the March 17, 2006 record date.

What items of business will I be voting on? You are voting on the following items of business which are described on pages 7 through 17:

1. To elect all nine members of the Board of Directors.

2. To ratify the appointment of Deloitte & Touche LLP as ITT Industries independent auditor for 2006.

3. To vote upon a proposal to amend ITT Industries Restated Articles of Incorporation to change the Company s name to ITT Corporation, effective July 1, 2006.

4. To transact such other business as may properly come before the meeting.

Information about Voting

How do I vote? You can either vote in person at the Annual Meeting or by proxy whether or not you attend the Annual Meeting.

Why does the Board solicit proxies from shareholders? Since it is impractical for all shareholders to attend the Annual Meeting and vote in person, the Board of Directors recommends that you appoint the two people named on the accompanying proxy card to act as your proxies at the 2006 Annual Meeting.

How do the proxies vote? The proxies vote your shares in accordance with your voting instructions. If you appoint the proxies but do not provide voting instructions, they will vote as recommended by the Board of Directors. If any other matters not described in this proxy statement are properly brought before the meeting for a vote, the proxies will use their discretion in deciding how to vote on those matters.

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What are the proxy voting procedures? Instructions are included on the proxy card. You may vote:

By the Internet,

By Telephone, if you call from the United States.

By Mail.

How many votes do I have? You have one vote for every share of ITT Industries common stock that you own.

What if I change my mind? You can revoke your proxy at any time before it is exercised by mailing a new proxy card with a later date or casting a new vote by the Internet or telephone. You can also send a written revocation to the Company Secretary at the address listed on the first page of the proxy statement. If you come to the Annual Meeting you can ask that the proxy you submitted earlier not be used.

If I don t return the proxy card or vote at the 2006 Annual Meeting what happens to my vote? If your shares are held by a broker, bank or other owner of record, your shares can be voted by the broker for all the scheduled agenda items. If your broker does not have discretion to vote your shares held in street name on a proposed agenda item and you provide no instructions on how to vote, the votes will be broker non-votes. That means the votes will be counted only for the purpose of determining a quorum, but not for or against any agenda item.

How many shares of ITT Industries stock are outstanding? As of the March 17, 2006 record date, 184,810,236 shares of ITT Industries common stock were outstanding.

How many holders of ITT Industries outstanding shares must be present to hold the Annual Meeting? In order to conduct business at the Annual Meeting it is necessary to have a quorum. To have a quorum, a majority of outstanding ITT Industries shares of common stock on the record date must be present in person or by proxy.

How are my votes counted? How many votes are required to elect Directors or approve a proposal? You may vote for or withhold your vote with respect to any Director standing for reelection. Indiana law, the state in which ITT Industries is incorporated, provides that directors are elected by a plurality of the votes cast. This means that the nine director candidates who receive the highest number of votes will be elected as the Directors of ITT Industries. Our Corporate Governance Principles, which are attached as Appendix I, provide for a review process should any nominee for Director in an uncontested election receive less than 50% of the votes cast. Such Director nominee must promptly provide a written resignation to the Chair of the Nominating and Governance Committee. The Nominating and Governance Committee then considers the resignation and recommends to the independent directors of the Board whether to accept, reject (applicable only in clearly compelling circumstances) or provide an opportunity for cure with respect to the Director nominee who

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received less than 50% of the votes cast. The independent directors of the Board must act on the Nominating and Governance Committee s recommendation at the earlier of its next regularly scheduled Board Meeting or within 90 days after certification of the shareholder vote and must promptly publicly disclose the decision and the Board s reasons for the decision. More specific information with respect to this process may be found in our Governance Principles at Appendix I, Section II2.

With respect to other agenda items, you may vote for, against or abstain from voting. For all the other items of business to be voted on at the 2006 Annual Meeting the item will be approved if the votes in favor are greater than the votes against the item.

Under Indiana law abstentions and broker non-votes are counted to determine whether there is a quorum, but abstentions and broker non-votes are not counted as votes for or against the election of Directors or other matters to be voted on. Therefore, abstentions and broker non-votes will not impact the election of Directors, ratification of the appointment of auditors, or the proposal to amend ITT Industries Restated Articles of Incorporation to change the Company s name to ITT Corporation.

What is the difference between a beneficial owner and a registered owner? If shares you own are held in an ITT Industries savings plan for salaried or hourly employees, a stock brokerage account, bank or by another holder of record you are considered the beneficial owner because someone else holds the shares on your behalf. If the shares you own are registered in your name directly with the Bank of New York, our transfer agent, you are the registered owner and the shareholder of record .

How do I vote if I am a participant in ITT Industries savings plans for salaried or hourly employees? If you participate in any of the ITT Industries savings plans for salaried or hourly employees, your plan trustee will vote the ITT Industries shares credited to your savings plan account in accordance with your voting instructions. The trustee votes the shares on your behalf because you are the beneficial owner, not the record owner of the savings plan shares. The trustee votes the savings plan shares for which no voting instructions are received in the same proportion as the shares for which the trustee receives voting instructions.

I participate in the ITT Industries savings plan for salaried employees and also am a shareholder of record of shares of ITT Industries common stock. How many proxy cards will I receive? You will receive only one proxy card. Your savings plan shares and any shares you own as the shareholder of record, including ownership through the Direct Purchase, Sale and Dividend Reinvestment Plan for ITT Industries, Inc. will be set out separately on the proxy card.

How many shares are held by participants in the ITT Industries employee savings plans? As of March 17, 2006, the record date, Wells Fargo Institutional Trust Services, as the trustee for the employee salaried savings

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plan, held 14,260,479 shares of ITT Industries common stock (approximately 7.72% of the outstanding shares) and Northern Trust, as the trustee for the hourly employees savings plan, held 763,580 shares of ITT Industries common stock (approximately 0.4% of the outstanding shares).

Who counts the votes? Is my vote confidential? Representatives of the Bank of New York count the votes. Representatives of IVS Associates, Inc. act as Inspectors of Election for the 2006 Annual Meeting. The Inspectors of Election monitor the voting and certify whether the votes of shareholders are kept in confidence in compliance with ITT Industries confidential voting policy.

Who pays for the proxy solicitation cost? ITT Industries pays the cost of soliciting proxies from registered owners. ITT Industries has appointed Georgeson & Company to help with the solicitation effort. We will pay Georgeson & Company a fee of $12,500 to assist with the solicitation. We also reimburse brokers, nominees, custodians and other fiduciaries for their costs in sending proxy materials to beneficial owners.

Who solicits proxies? Directors, officers or other regular employees of ITT Industries may also solicit proxies from shareholders in person or by telephone, facsimile transmission or other electronic communication.

What happens if I return my proxy without indicating how I want my shares voted? If you return the proxy without specifying how you want your shares voted, you are giving discretionary authority to the proxies to vote your shares in accordance with the recommendations of the Board of Directors, which are described on pages 7 to 17. If any other matters are properly presented for consideration at the 2006 Annual Meeting, the persons named as proxies will have discretion to vote on these matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. There are three formal items scheduled to be voted upon at the Annual Meeting: election of Directors, ratification of the appointment of the independent auditors, and amendment to the Restated Articles of Incorporation to change the name of the corporation from ITT Industries, Inc. to ITT Corporation, effective July 1, 2006. As of the date of this proxy statement, the Board of Directors is not aware of any business other than as described in this proxy statement that will be presented for a vote at the 2006 Annual Meeting.

How does a shareholder submit a proposal for the 2006 Annual Meeting? Rule 14a-8 of the Securities Exchange Act of 1934, or the Exchange Act, establishes the eligibility requirements and the procedures that must be followed for a shareholder s proposal to be included in a public company s proxy materials. Under the rule, if a shareholder wishes to include a proposal in ITT Industries proxy materials for its next Annual Meeting, those eligibility requirements and procedures must be complied with and the proposal must be received by ITT Industries at its principal executive offices on or before December 5, 2006. An ITT Industries shareholder who wishes to present a matter for action at ITT Industries next Annual Meeting, but chooses not to do so under Exchange Act

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Rule 14a-8, must deliver to ITT Industries, at its principal executive offices, on or before December 5, 2006 a written notice to that effect. In either case, as well as for shareholder nominations for Directors, the shareholder must also comply with the requirements in the Company s By-laws with respect to a shareholder properly bringing business before the Annual Meeting. (A copy of the By-laws may be obtained from the Secretary of ITT Industries.)

Can a shareholder nominate Director Candidates? The Company s By-laws permit shareholders to nominate Directors at the Annual Meeting. In order to make a Director nomination at the 2007 Annual Meeting, it is necessary that you submit a notice with the name of the candidate on or before December 5, 2006. The nomination and notice must meet all other qualifications and requirements of the Company s Governance Principles, By-laws and Regulation 14A of the Exchange Act. The nominee will be evaluated by the Nominating and Governance Committee of the Board using the same standards as it uses for all Director nominees, which are discussed in further detail below at page 19 under Information about the Board of Directors-Director Selection and Composition. No one may be nominated for election as a Director after he or she has reached 72 years of age. (A copy of the nomination requirements may be obtained from the Secretary of ITT Industries.)

Stock Ownership of Directors and Executive Officers

The Board of Directors share ownership guidelines currently provide for share ownership levels at five times the annual retainer amount. Directors receive a portion of their retainer in restricted stock and are encouraged to hold such restricted stock until such time as his or her total share ownership meets or exceeds the ownership guidelines. The Company also has share ownership guidelines for corporate officers. These guidelines, described on page 46, were first approved by ITT Industries Board of Directors during 2001 and are regularly reviewed. The guidelines specify the desired levels of Company stock ownership and encourage a set of behaviors to enable each officer to reach the guideline levels. The Committee monitors compliance with the guidelines periodically and, as of February 28, 2006, the share ownership levels have been substantially met. More specific information is provided in the Report of the Compensation and Personnel Committee.

The following table shows, as of February 28, 2006, the beneficial ownership of ITT Industries common stock and options exercisable within 60 days by each Director, by each of the executive officers named in the Summary Compensation Table, and by all Directors and executive officers as a group. In addition, with respect to Mr. Loranger, we have provided information about ownership of stock-linked instruments that provide economic linkage to the common stock but do not represent actual beneficial ownership of shares. On February 21,

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2006 the Company effected a 2:1 split of its common stock. Share ownership in the table below is disclosed on a post-split basis.

Name of beneficial owner	Total Shares Beneficially Owned	Shares Owned	Options	Stock Units
Steven R. Loranger(1)	0	0	0	250,000
Curtis J. Crawford	36,463	27,289	9,174	0
Christina A. Gold	27,372	18,198	9,174	0
Ralph F. Hake	14,315	8,701	5,614	0
John J. Hamre	23,419	14,245	9,174	0
Raymond W. LeBoeuf	25,077	15,903	9,174	0
Frank T. MacInnis	19,547	10,373	9,174	0
Linda S. Sanford	28,239	19,065	9,174	0
Markos I. Tambakeras	19,307	10,133	9,174	0
Henry J. Driesse	260,927	50,927	210,000	0
Steven F. Gaffney	21,301	13,634	7,667	0
Vincent A. Maffeo(2)	78,340	33,140	45,200	0
George E. Minnich	24,147	24,147	0	0
Robert L. Ayers	122,559	15,559	107,000	0
Edward W. Williams	315,815	39,815	276,000	0
All Directors and executive officers as a group(21)	1,753,911	403,445	1,350,466	250,000

(1) On June 28, 2004 Mr. Loranger received an award of 250,000 (as adjusted to reflect February 21, 2006 2:1 stock split) Restricted Stock Units (RSUs) under the 2003 Equity Incentive Plan, in connection with his employment agreement. The units vest in one-third installments on June 28, 2007, June 28, 2008 and June 28, 2010. During the restriction period Mr. Loranger may not vote the shares but receives dividends.

(2) In March 2006 Mr. Maffeo exercised 45,200 stock options.

The number of shares beneficially owned by each Director or executive officer has been determined under the rules of the SEC, which provide that beneficial ownership includes any shares as to which a person has sole or shared voting or dispositive power, and any shares which the person would have the right to acquire beneficial ownership of within 60 days through the exercise of any stock option or other right.

Unless otherwise indicated, each Director or executive officer has sole dispositive and voting power, or shares those powers with his or her spouse.

As of February 28, 2006, all Directors and executive officers as a group owned .09% of the shares deemed to be outstanding. No individual Director or executive officer owned in excess of one percent of the shares deemed to be outstanding.

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Beneficial Ownership of ITT Industries Common Stock

Set forth below is information reported to the SEC on the most recently filed Schedule 13G by the following person who owned more than 5% of ITT Industries outstanding common stock. This information does not include holdings by the Trustee with respect to individual participants in the ITT Industries Investment and Savings Plan for Salaried Employees.

Name and address of beneficial owner	Amount and nature of beneficial ownership	Percent of Class
Barrow, Hanley, Mewhinney & Strauss, Inc.(1) 2200 Ross Avenue, 31st Floor Dallas, TX 75201-2761	10,915,140	5.91%

(1) As reported on Schedule 13G dated February 7, 2006, Barrow, Hanley, Mewhinney & Strauss, Inc. has sole voting power with respect to 841,940 shares, shared voting power with respect to 10,073,200 shares, and sole dispositive power with respect to 10,915,140 shares. (Adjusted to reflect the Company s February 21, 2006 2:1 stock split.)

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that the Company s executive officers and directors, and any persons beneficially owning more than 10% of a registered class of the Company s equity securities, file reports of ownership and changes in ownership with the SEC within specified time periods. To the Company s knowledge, based upon a review of the copies of the reports furnished to the Company and written representations that no other reports were required, all of these filing requirements were satisfied in a timely manner for the year ended December 31, 2005.

Proposals to be voted on at the 2006 Annual Meeting

A. Election of Directors

The Board of Directors has nominated nine individuals for election as Directors at the 2006 Annual Meeting. Each of the nominees is currently serving as a Director of ITT Industries and has agreed to continue to serve if elected until his or her retirement, resignation or death. If unforeseen circumstances arise before the 2006 Annual Meeting and a nominee becomes unable to serve, the Board of Directors could reduce the size of the Board or nominate another candidate for election. If the Board nominates another candidate, the proxies could use their discretion to vote for that nominee. Each Director elected at the 2006 Annual Meeting will be elected to serve as a Director until ITT Industries next Annual Meeting.

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The Board of Directors recommends that you vote FOR the election of each of the following nine nominees:

Steven R. Loranger
Chairman, President and Chief Executive Officer,
ITT Industries, Inc.

Mr. Loranger, 54, was appointed President and Chief Executive Officer and elected a Director of ITT Industries, Inc. on June 28, 2004. He was elected Chairman of the Board of Directors on December 7, 2004. Mr. Loranger previously served as Executive Vice President and Chief Operating Officer of Textron, Inc. from 2002 to 2004, overseeing Textron s manufacturing businesses, including aircraft and defense, automotive, industrial products and components. From 1981 to 2002, Mr. Loranger held executive positions at Honeywell International Inc. and its predecessor company, AlliedSignal, Inc., including serving as President and Chief Executive Officer of its Engines, Systems and Services businesses. Mr. Loranger is a member of the Business Roundtable and serves on the boards of the National Air and Space Museum and the Congressional Medal of Honor Foundation. Mr. Loranger received Bachelors and Masters degrees in science from the University of Colorado.
Mr. Loranger has been a Director of ITT Industries since 2004.

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Curtis J. Crawford
President and Chief Executive Officer, XCEO, Inc., a leadership and corporate governance consulting firm

Dr. Crawford, 58, is President and Chief Executive Officer of XCEO, Inc. From April 1, 2002 to March 31, 2003 he served as President and Chief Executive Officer of Onix Microsystems, a private photonics technology company. He was Chairman of the Board of Directors of ON Semiconductor Corporation from September 1999 until April 1, 2002. Previously, he was President and Chief Executive Officer of ZiLOG, Inc. from 1998 to 2001 and its Chairman from 1999 to 2001. Dr. Crawford is a Director of E.I. DuPont de Nemours and Company, ON Semiconductor Corporation, and Agilysys, Inc. and is a member of the Board of Trustees of DePaul University. He received a B.A. degree in business administration and computer science and an M.A. degree from Governors State University, an M.B.A. from DePaul University and a Ph.D. from Capella University. Governors State University awarded him an honorary doctorate in 1996 and he received an honorary doctorate degree from DePaul University in 1999.
Dr. Crawford has been a Director of ITT Industries since 1996.

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Christina A. Gold
Senior Executive Vice President, First Data Corp. and
President, Western Union Financial Services, Inc.,
a global leader in money transfer and financial services

Mrs. Gold, 58, was named Senior Executive Vice President, First Data Corp. and President, Western Union Financial Services, Inc., a global leader in money transfer and financial services on May 20, 2002. Prior to joining Western Union she was Chairman, President and Chief Executive Officer of Excel Communications. She was also President and Chief Executive Officer of The Beaconsfield Group and from February 1997 to March 1998, Mrs. Gold was Executive Vice President, global direct selling of Avon Products, Inc. She is a Director of New York Life Insurance Company, The Torstar Corporation and is a member of the President s Advisory Council of Carleton University. Mrs. Gold is a graduate of Carleton University, Ottawa, Canada.
Mrs. Gold has been a Director of ITT Industries since 1997.

Ralph F. Hake
Chairman and Chief Executive,
Maytag Corporation,
a home and commercial appliance company

Mr. Hake, 57, was named Chairman and Chief Executive of Maytag Corporation in June of 2001[(1)]. Previously, he was Executive Vice President and Chief Financial Officer for Fluor Corporation, an engineering and construction firm. From 1987 to 1999, Mr. Hake served in various executive capacities at Whirlpool Corporation, including Chief Financial Officer and Senior Executive Vice President for global operations. Mr. Hake serves on the Board of the National Association of Manufacturers, where he is Chairman of that association s Taxation and Economic Policy Group. Mr. Hake is a 1971 business and economics graduate of the University of Cincinnati and holds an M.B.A. from the University of Chicago.
Mr. Hake has been a Director of ITT Industries since 2002.

(1) On March 31, 2006, Whirlpool Corporation completed its acquisition of Maytag Corporation.

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John J. Hamre
President and Chief Executive Officer, Center for Strategic & International Studies (CSIS), a public policy research institution dedicated to strategic, bipartisan global analysis and policy impact

Dr. Hamre, 55, was elected President and Chief Executive Officer of CSIS in April of 2000. Prior to joining CSIS, he served as U.S. Deputy Secretary of Defense from 1997 to 2000 and Under Secretary of Defense (Comptroller) from 1993 to 1997. Dr. Hamre is a Director of MITRE Corporation, Choicepoint, Inc. and SAIC, Inc. He received a B.A. degree, with highest distinction from Augustana College in Sioux Falls, South Dakota, was a Rockefeller Fellow at Harvard Divinity School and was awarded a Ph.D., with distinction, from the School of Advanced International Studies, Johns Hopkins University, in 1978.
Dr. Hamre has been a Director of ITT Industries since 2000.

Raymond W. LeBoeuf
Former Chief Executive Officer and Chairman of the Board, PPG Industries, Inc., a global manufacturer of materials for manufacturing, construction, automotive, chemical processing and other industries

Mr. LeBoeuf, 59, was Chief Executive Officer of PPG Industries from July 1997 to March 31, 2005, was elected a Director of PPG in December 1995 and was its Chairman through June 30, 2005. Mr. LeBoeuf joined PPG Industries in 1980 as its Treasurer and was an Executive Vice President of PPG from 1994 to 1995. He is also a Director of Praxair, Inc. Mr. LeBoeuf is a Board Member of Robert Morris University. Mr. LeBoeuf is a graduate of Northwestern University and holds an M.B.A. from the University of Illinois.
Mr. LeBoeuf has been a Director of ITT Industries since 2000.

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Frank T. MacInnis
Chairman and Chief Executive Officer, EMCOR Group, Inc., an international electrical and mechanical construction and facility management company

Mr. MacInnis, 59, has been Chairman of the Board and Chief Executive Officer of EMCOR Group, Inc. since April 1994. He was also President of EMCOR from April 1994 to April 1997. Mr. MacInnis is also a Director of The Williams Companies, Inc., The Greater New York Chapter of the March of Dimes and ComNet Communications, LLC. Mr. MacInnis received an undergraduate degree from The University of Alberta and is a graduate of The University of Alberta Law School, Alberta, Canada.
Mr. MacInnis has been a Director of ITT Industries since 2001.

Linda S. Sanford
Senior Vice President, Enterprise On Demand Transformation, International Business Machines Corporation (IBM), an information technology company

Ms. Sanford, 53, was named Senior Vice President, Enterprise on Demand Transformation, IBM in January 2003. Previously, she was Senior Vice President and Group Executive, IBM Storage Systems Group responsible for development of IBM s Enterprise Storage Server and other storage-related hardware and software. She also has held positions as General Manager, IBM Global Industries and General Manager of IBM s S/390 Division. Ms. Sanford is a member of the Women in Technology International Hall of Fame and the National Association of Engineers. She is on the Board of Directors of St. John s University and Rensselaer Polytechnic Institute, serves on the Board of Directors of Partnership for New York City and is Chairperson of the Board of Directors for the Business Council of New York State, Inc. Ms. Sanford is a graduate of St. John s University and earned an M.S. degree in operations research from Rensselaer Polytechnic Institute.
Ms. Sanford has been a Director of ITT Industries since 1998.

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Markos I. Tambakeras
Executive Chairman to the Board of Directors, Kennametal, Inc., a premier global tooling solutions, engineered components and advanced materials supplier to the automotive, aerospace, energy, mining, construction and other industries

Mr. Tambakeras, 55, has been Executive Chairman to the Board of Directors, Kennametal Inc. since January 1, 2006. Previously he was President and Chief Executive Officer of Kennametal from July 1999 through December 31, 2005. Mr. Tambakeras was named a Director of Kennametal in July 1999, served as its Chairman from July 1, 2002 and has served as its Executive Chairman since January 1, 2006. From 1997 to June 1999, Mr. Tambakeras served as President, Industrial Controls Business of Honeywell Incorporated. Mr. Tambakeras also serves on the Board of Parker Hannifin Corporation, is Chair of the Manufacturers Alliance Board of Trustees and is a member of the President s Manufacturing Council. Mr. Tambakeras received a B.Sc. degree from the University of Witwatersrand, Johannesburg, South Africa and an M.B.A. from Loyola Marymount University, Los Angeles, CA.

Mr. Tambakeras has been a Director of ITT Industries since 2001.

B. Ratification of Appointment of the Independent Auditors

Subject to shareholders ratification, the Board of Directors has appointed Deloitte & Touche LLP as ITT Industries independent auditors (the Independent Auditor) for 2006. Deloitte & Touche LLP is registered as a registered public accounting firm by the Public Company Accounting Oversight Board (PCAOB).

Representatives of Deloitte & Touche LLP attended all meetings of the Audit Committee during 2005. The Audit Committee reviewed and considered the nature of the non-audit services provided by Deloitte & Touche LLP to ITT Industries in 2005. The Audit Committee discussed these services with Deloitte & Touche LLP and Company management and determined that the services were permitted under the rules and regulations concerning auditor independence promulgated by the SEC to implement the Sarbanes-Oxley Act of 2002, as well as the rules promulgated by the American Institute of Certified Public Accountants.

Representatives of the Independent Auditor will be present at the 2006 Annual Meeting to answer questions. They also will have the opportunity to make a statement if they desire to do so.

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Independent Auditor Fees

Aggregate fees billed to the Company for the fiscal years ended December 31, 2005 and 2004 represent fees billed by the Company s independent auditor, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte & Touche).

	Fiscal Year Ended (in thousands)	
	2005	**2004***
Audit Fees(1)	$7,454	$ 7,544
Audit-Related Fees(2)	1,852	1,347
Tax Fees(3)		
Tax Compliance Services	699	740
Tax Planning Services	82	80
	781	820
All Other Fees	11	
Total	$10,098	$ 9,711

* Pursuant to SEC guidance issued in 2005, fees paid to a company s independent auditor include those fees paid by pension plans. The fees for 2004 have been restated accordingly. Previously, only those fees paid directly by the Company to Deloitte & Touche were included.

(1) Fees for audit services billed in 2005 and 2004 consisted of:

Audit of the Company s annual financial statements and internal control over financial reporting;

Reviews of the Company s quarterly financial statements;

Statutory and regulatory audits, consents and other services related to SEC matters; and

Financial accounting and reporting consultations.

(2) Fees for audit-related services billed in 2005 and 2004 consisted of:

Employee benefit plan audits;

Closing balance sheet audits and reviews of acquisitions and dispositions;

Due diligence associated with mergers and acquisitions; and

Internal control advisory services.

(3) Fees for tax services billed in 2005 and 2004 consisted of tax compliance and tax planning and advice:

Tax compliance services are services rendered, based upon facts already in existence or transactions that have already occurred, to document, compute, and obtain government approval for amounts to be included in tax filings consisting of:

i. Federal, foreign, state and local income tax return assistance;

ii. Transfer pricing consultations; and

iii. Internal Revenue Code and foreign tax code technical consultations.

Tax planning services are services and advice rendered with respect to proposed transactions or services that alter the structure of a transaction to obtain an anticipated tax result. Such services consisted of:

i. Tax advice related to the structural modification of employee benefit plans; and

ii. Tax advice related to an intra-group restructuring.

	2005	2004
Ratio of Tax Planning and Advice to Total Fees	0.8%	0.8%

Pre-Approval of Audit and Non-Audit Services

The Audit Committee pre-approves audit services provided by the Independent Auditor and outsourced internal auditor (Internal Auditor).

The Audit Committee has also adopted a policy addressing pre-approval of non-audit services provided by the Independent Auditor and non-audit services provided by the Company s Internal Auditor. The purpose of the policy is to clearly identify circumstances where the Independent Auditor and the Internal Auditor may perform non-audit services and where such services shall require further approval by the Audit Committee. The Audit Committee has determined that, where practical, all non-audit services shall first be placed for competitive bid prior to selection of a service provider. Management may select the party deemed best suited for the particular engagement, which may or may not be the Independent Auditor or the Internal Auditor. Providers other than the Independent Auditor and Internal Auditor shall be preferred in the selection process. The policy and its implementation are reviewed and reaffirmed on a regular basis to assure conformance with applicable rules.

The Audit Committee has approved specific categories of audit-related services and tax services incidental to the normal auditing function which the Independent Auditor may provide without further Audit Committee approval. These categories are:

1. Due diligence, closing balance sheet audit services, purchase price dispute support and other services related to mergers, acquisitions and divestitures;

2. Employee benefit advisory services, independent audits and preparation of tax returns for the Company s defined contribution, defined benefit and health and welfare benefit plans, preparation of the associated tax returns or other employee benefit advisory services; and

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3. Tax work incidental to the normal auditing functions.

The Audit Committee has also approved specific categories of audit-related services, including assessment and review of internal controls and effectiveness of those controls, which the Internal Auditor may provide without further approval. However, if fees for any pre-approved non-audit services provided by either of the Independent Auditor or the Internal Auditor exceed a pre-determined threshold during any calendar year, any additional proposed non-audit services provided by that service provider must be submitted for prior approval by the Audit Committee. Other audit-related and tax services are also subject to specific prior approval if the prospective fee exceeds a pre-determined threshold. The Audit Committee reviews the fees paid or committed to the Independent Auditor and the Internal Auditor on at least a quarterly basis.

The Company may not engage the Independent Auditor to provide the services described below:

1. Bookkeeping or other services related to the accounting records or financial statements of the Company;

2. Financial information systems design and implementation;

3. Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

4. Actuarial services;

5. Internal auditing services;

6. Management functions or human resources services;

7. Broker-dealer, investment adviser or investment banking services; or

8. Legal services and other expert services unrelated to the audit.

Employees of the Independent Auditor and the Internal Auditor who are senior manager level or above and have had any involvement with the Company in the independent audit and/or internal audit activities shall not be employed by the Company in any capacity for a period of five years after the termination of their activities on behalf of the Company.

The Board of Directors recommends you vote FOR ratification of appointment of the Company s Independent Auditor.

C. Amendment to the Restated Articles of Incorporation

The Company s Board of Directors has adopted, and recommends that shareholders approve at the 2006 Annual Meeting a proposal to amend ARTICLE FIRST of the Company s Restated Articles of Incorporation to change the name of the corporation to ITT Corporation, to be effective July 1,

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2006. This proposal will be approved if more shares are voted in favor of the proposal than against it.

Market research with both internal and external audiences provided compelling evidence that the name ITT Industries does not fully reflect the current breadth and scope of the Company s activities. The Company was incorporated under the name ITT Industries in 1995 to distinguish itself from other entities with similar names. Subsequently these other entities have either been acquired by companies that chose not to use the ITT name, or they have chosen new company names that do not incorporate the ITT name. The Company feels that the diverse range of businesses and markets it now serves is best reflected by the proposed name ITT Corporation.

The Board of Directors believes that the proposed amendment to the Restated Articles of Incorporation shown below is in the best interest of the Company and its shareholders:

RESTATED ARTICLES OF INCORPORATION
(AS PROPOSED TO BE AMENDED)
ARTICLE FIRST

The name of the corporation is ITT Corporation (the Corporation).

The Board of Directors recommends you vote FOR the amendment to the Restated Articles of Incorporation to change the name of the Company from ITT Industries, Inc. to ITT Corporation, to be effective July 1, 2006.

Information about the Board of Directors

Responsibilities of the Board of Directors. The Board of Directors sets policy for ITT Industries and advises and counsels the chief executive officer and the executive officers who manage the Company s business and affairs. The Board of Directors is responsible for assuring that:

- there is continuity in the leadership of the Company;
- management develops sound business strategies;
- adequate capital and managerial resources are available to implement the business strategies;
- the Company s systems of financial reporting and internal controls are adequate and properly implemented;
- the Company s businesses are conducted in conformity with applicable laws and regulations;
- the Company s long-term strategies, significant investments in new businesses, joint ventures and partnerships and significant business acquisitions, including assessment of balance sheet impacts and other financial matters are reviewed and approved; and

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the Company s operating plans and capital, research and development and engineering budgets are reviewed and approved.

The Board of Directors has adopted principles for governance of the Board (the Corporate Governance Principles) and charters for each of its standing committees. The Corporate Governance Principles provide, among other things, that a Coordinating Director shall be selected from the Committee chairs, on a rotating basis, to preside at meetings of the Board of Directors at which the Chairman is not present, including regularly scheduled private sessions of the non-employee Directors. Each Coordinating Director serves until the next regular or special meeting of the Board of Directors, whichever occurs first.

The Corporate Governance Principles further provide that Directors must be able to devote the requisite time for preparation and attendance at regularly scheduled Board and Board Committee meetings, as well as be able to participate in other matters necessary for good corporate governance. To help assure that Directors are able to fulfill their commitments to the Company, the Corporate Governance Principles provide that Directors who are chief executive officers of publicly-traded companies may serve on not more than two public company boards (including the ITT Industries Board) in addition to service on their own board and other Directors may not serve on more than four public company boards (including the ITT Industries Board).

The Corporate Governance Principles and Committee Charters are reviewed by the Board at least annually and posted on the Company s website at *www.itt.com.* The Board s Corporate Governance Principles are attached as Appendix I to this Proxy Statement. A copy of the Corporate Governance Principles will be provided, free of charge, to any shareholder upon request to the Corporate Secretary.

The Company has also adopted the ITT Industries, Inc. Code of Corporate Conduct which applies to the Company s chief executive officer, chief financial officer and principal accounting officer. The Code of Corporate Conduct is also posted on the Company s website at *www.itt.com.* The Company discloses any changes or waivers from its code of ethics on its website for the Company s chief executive officer, chief financial officer, principal accounting officer and controller and other executive officers. A copy of the Corporate Conduct will be provided, free of charge, to any shareholder upon request to the Corporate Secretary.

Communication with the Board of Directors. Interested parties may contact the Coordinating Director, all outside Directors as a group or an individual Director by submitting a letter to the desired recipient in a sealed envelope labeled Coordinating Director , Outside Directors or with the name of a specific director. This letter should be placed in a larger envelope and mailed to the Corporate Secretary, ITT Industries, Inc. 4 West Red Oak Lane, White Plains, NY 10604, USA. The Corporate Secretary will forward the sealed envelope to the designated recipient.

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Independent Directors. The Company s By-laws require that a majority of the Directors must be independent directors. The Corporate Governance Principles define independence and the Charters of the Audit, Compensation and Personnel, and Nominating and Governance Committee require all members to be independent directors.
Under the Corporate Governance Principles and By-laws, an independent director is someone who is free of any relationship that would interfere with the exercise of independent judgment, and within the past 5 years:

- has not been employed by the Company in an executive capacity;
- has not been an advisor or consultant to the Company, and has not been affiliated with a company or a firm that is;
- has not been affiliated with a significant customer or supplier of the Company;
- has not had a personal services contract with the Company;
- has not been affiliated with a tax-exempt entity that receives significant contributions from the Company;
- has not been related to any of the persons described above; and
- has not been part of an interlocking directorate in which an executive officer of the Company is a member of the compensation committee of the company that employs the Director.

With respect to Directors standing for election at the Company s 2006 Annual Meeting, the Board of Directors has affirmatively determined, after considering all relevant facts and circumstances that no Non-Employee Director has a material relationship with the Company and that all Non-Employee Directors meet the independence standards of the Corporate Governance Principles and By-laws as well as the independence definition in the final New York Stock Exchange corporate governance rules for listed companies. The following are the independent directors standing for election: Drs. Crawford and Hamre, Messrs. Hake, MacInnis, LeBoeuf and Tambakeras, Mrs. Gold and Ms. Sanford.
Director Selection and Composition. Directors of the Company must be persons of integrity, with significant accomplishments and recognized business stature.
To be considered by the Nominating and Governance Committee as a Director candidate, a nominee must meet the requirements of the Company s By-laws and Corporate Governance Principles. A nominee should also have experience as a board member, chief executive officer or senior officer of a publicly traded or large privately held company, or have achieved recognized prominence in a relevant field as, for example, a distinguished faculty member of a highly regarded educational institution or senior governmental official. In addition to these minimum qualifications, the Nominating and Governance Committee

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evaluates each nominee s skills to determine if those skills are complementary to the skills demonstrated by current Board members. The Nominating and Governance Committee also evaluates the Board s needs for operational, technical, management, financial, international or other expertise.

Prior to recommending nominees for election as Directors, the Company s Nominating and Governance Committee engages in a deliberative, evaluative process to assure each nominee possesses the skills and attributes that individually, and collectively will contribute to an effective Board of Directors. Biographical information for each candidate for election as a Director is evaluated and candidates for election participate in interviews with existing Board members and management, and are subject to thorough background checks. Director nominees must be willing to commit the requisite time for preparation and attendance at regularly scheduled Board and Committee meetings and participation in other matters necessary for good corporate governance.

The Nominating and Governance Committee identifies Director candidates through a variety of sources including personal references and business contacts. On occasion the Nominating and Governance Committee utilizes a search firm to identify and screen Director candidates and pays a fee to that firm for each such candidate elected to the Board of the Company.

Committees of the Board of Directors. The four standing Committees of the Board described below perform essential corporate governance functions. The post of Committee Chair rotates every four years and members of each Committee are rotated periodically to assure that fresh points of view are reflected.

Audit Committee

2005 Audit Committee Members:

	Ralph F. Hake, Chair Christina A. Gold John J. Hamre Raymond W. LeBoeuf
Meetings in 2005:	10
Responsibilities:	Subject to any action that may be taken by the full Board, the Audit Committee has the ultimate authority and responsibility to determine the independent auditors qualifications and independence, and to appoint (or nominate for shareholder ratification), evaluate, and where appropriate, consider rotation or replacement of the independent auditors. Review and discuss with management and the auditors, and approve the audited financial state-

ments of the Company and make a recommendation regarding inclusion of those financial statements in any public filing including the Company s Annual Report on Form 10-K (or the Annual Report to Shareholders if distributed prior to the filing of Form 10-K), including discussion of the Company s disclosures under Management s Discussion and Analysis of Financial Conditions and Results of Operations.

Review and consider with the independent auditors the matters required to be discussed by PCAOB Standards, Statement of Auditing Standards (SAS) No. 61 and all other applicable regulatory agencies.

Review with management and the independent auditors the effect of regulatory and accounting initiatives on the Company s financial statements.

As a whole, or through the Committee chair, review and discuss with the independent auditors the Company s interim financial results to be included in the Company s quarterly reports to be filed with the SEC, including discussion of the Company s disclosures under Management s Discussion and Analysis of Financial Conditions and Results of Operations prior to release of the Company s earnings report or the filing of its Form 10-Q with the SEC.

Review and discuss with management the types of information to be disclosed and the types of presentations to be made with respect to the Company s earnings, press releases and rating agency presentations.

Monitor and discuss with management and the independent auditors the quality and adequacy of the Company s internal controls and their effectiveness, and meet regularly and privately with the Director of Internal Audit.

Annually request from the independent auditors a formal written statement delineating all relationships between the independent auditor and the Company consistent with Independence Standards

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Board Standard No. 1. With respect to such relationships, the Audit Committee shall:

Discuss with the independent auditors any disclosed relationships and the impact of the relationship on the independent auditors independence; and

Assess and recommend appropriate action in response to the independent auditors report to satisfy itself of the auditors independence.

Adopt and monitor implementation and compliance with the Company s Non-Audit Services Policy which addresses approval requirements and the limited circumstances in which the independent auditors or outsourced internal auditor may be retained for non-audit services.

Confirm and approve the scope of audits to be performed by the independent and internal auditors, monitor progress and review results. Review fees and expenses charged by the independent auditors and any party retained to provide internal audit services.

On an annual basis, discuss with the independent auditors their internal quality control procedures, material issues raised in quality control or peer review and any inquiries by governmental or professional authorities regarding the firms independent audits of other clients.

Review significant findings or unsatisfactory internal audit reports or audit problems or difficulties encountered by the independent auditors, and monitor management s response to such findings.

Provide oversight review and discuss with management, internal auditors and independent auditors, the adequacy and effectiveness of the Company s overall risk assessment and risk management process.

Review its Charter at least annually and make recommendations to the Board of Directors for approval and adoption of the Charter.

Review pension plan investment performance.

Review expense accounts of senior executives.

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Update the Board of Directors on a regular basis with respect to matters coming to its attention which may have a significant impact on the Company s financial condition or affairs and the Company s compliance with legal or regulatory requirements and the performance and independence of the independent auditors and the internal audit function.

Review major issues regarding accounting principles and financial statement presentations, significant changes to the Company s selection or application of accounting principles and major issues relating to the Company s internal controls including any specifically required steps to correct identified major internal control issues. The Audit Committee also reviews management or independent auditors analyses regarding significant financial reporting issues and judgments made in preparing financial statements including analyses of alternative GAAP methods as well as the effect of regulatory and accounting initiatives and off-balance sheet structures on the Company s financial statements.

Review all material related party transactions prior to initiation of the transaction and make recommendations to the Board of Directors for approval or disapproval.

In conjunction with the Board of Directors, evaluate the qualifications of its members and its own performance on an annual basis.

Meet separately and privately, on a regular basis, with the independent auditors and internal auditors, and with members of management as needed.

Establish policies regarding the employment and retention of current or former employees of the Company s independent auditors or outsourced internal auditor.

With respect to complaints concerning accounting, internal accounting controls or auditing matters:

Review and approve procedures for receipt, retention and treatment of complaints received by the Company; and

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Establish procedures for the confidential, anonymous submission of complaints to the Audit Committee.

Establish levels for payment by the Company of fees to the independent auditors and any advisors retained by the Audit Committee.

Receive regular reports from the chief executive officer, chief financial officer and the Company s disclosure control committee representative on the status of the Company s disclosure controls and related certifications, including disclosure of any significant deficiencies in the design or operation of internal controls and any fraud that involves management or other employees with a significant role in internal controls.

Prepare the Report of the Audit Committee for the Company s proxy statement.

The Board of Directors has determined that each member of the Audit Committee meets the independence standards set out in the Board s Corporate Governance Principles and its Audit Committee Charter and the requirements of the New York Stock Exchange currently in effect and Rule 10A-3 of the Exchange Act. The Board of Directors has evaluated the performance of the Audit Committee consistent with the PCAOB requirements.

A copy of the Audit Committee Charter is available on the Company s website *(www.itt.com/profile/govandcharters.asp)*. The Company will provide, free of charge, a copy of the Audit Committee Charter to any shareholder upon request to the Company Secretary.

Compensation and Personnel Committee

2005 Compensation and Personnel Committee Members:

Markos I. Tambakeras, Chair
Curtis J. Crawford
Frank T. MacInnis
Linda S. Sanford

Meetings in 2005: 6

Responsibilities:

Approve and oversee administration of the Company s employee compensation program including incentive plans and equity based compensation plans.

Evaluate senior management and chief executive officer performance, set annual performance objectives for the chief executive officer and approve individual compensation actions for the chief executive officer and all corporate officers.

Oversee the establishment and administration of the Company s benefit programs.

Select, retain and determine the terms of engagement for independent compensation and benefits consultants and other outside counsel, as needed, to provide independent advice to the Committee with respect to the Company s current and proposed executive compensation and employee benefit programs. In 2005 and prior years, the Committee obtained such advice.

Oversee and approve the continuity planning process and review with the full Board of Directors, which provides final approval.

Regularly report to the Board of Directors on compensation, benefits, continuity and related matters.

Prepare the Report of the Compensation and Personnel Committee for the Company s proxy statement.

Annually review its performance.

Annually review and make recommendations to the Board of Directors for approval and adoption of the Compensation and Personnel Committee Charter.

The Board of Directors has determined that each member of the Compensation and Personnel Committee meets the independence standards set out in the Board s Corporate Governance Principles and its Compensation and Personnel Committee Charter and the requirements of the New York Stock Exchange currently in effect.

A copy of the Compensation and Personnel Committee Charter is available on the Company s website (*www.itt.com/profile/govandcharters.asp*). The Company will provide, free of charge, a copy of the Compensation and Personnel Committee Charter to any shareholder, upon request to the Company Secretary.

Corporate Responsibility Committee

2005 Corporate Responsibility Committee Members:

Curtis J. Crawford, Chair
Christina A. Gold
John J. Hamre
Markos I. Tambakeras

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Meetings in 2005:	3
Responsibilities:	Review and make recommendations concerning the Company s roles and responsibilities as a good corporate citizen.
	Review and consider major claims and litigation involving the Company and its subsidiaries.
	Examine the Company s programs and policies for effecting compliance with laws and regulations, including international and environmental laws and regulations.
	Regularly assess the adequacy and effectiveness of the Company s Code of Corporate Conduct and review any violations of the Code.
	Annually review its performance.
	Annually review and make recommendations to The Board of Directors for approval and adoption of its Charter.

A copy of the Corporate Responsibility Committee Charter is available on the Company s website (*www.itt.com/profile/govandcharters.asp*). The Company will provide, free of charge, a copy of the Corporate Responsibility Committee Charter to any shareholder, upon request to the Company Secretary.

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Nominating and Governance Committee

2005 Nominating and Governance Committee Members:

	Frank T. MacInnis, Chair Ralph F. Hake Raymond W. LeBoeuf Linda S. Sanford
Meetings in 2005:	4
Responsibilities:	Develop, annually review, update and recommend to the Board of Directors corporate governance principles for the Company. In the event it is necessary to select a new chief executive officer, lead the process for candidate evaluation, consideration and screening. The full Board of Directors has the final responsibility to select the Company s chief executive officer. Evaluate and make recommendations to the Board of Directors concerning the composition, governance and structure of the Board. Make recommendations to the Board of Directors concerning the qualifications, compensation and retirement age of Directors. Administer the Board of Directors annual evaluation process. Determine desired Board and Director skills and attributes and conduct searches for prospective board members whose skills and attributes reflect those desired for the Board of Directors. Identify, evaluate and propose nominees for election to the Board of Directors. Make recommendations to the Board of Directors concerning the appointment of Directors to Board Committees and the selection of Board Committee Chairs. Evaluate and make recommendations regarding senior management requests for approval to accept membership on outside boards. Annually review its performance. Annually review and make recommendations to the Board of Directors for approval and adoption of its Charter.

The Board of Directors has determined that each member of the Nominating and Governance Committee meets the independence standards set out in the Board s Nominating and Governance Committee Charter and Corporate Governance Principles and the requirements of the New York Stock Exchange currently in effect.

A copy of the Nominating and Governance Committee Charter is available on the Company s website (*www.itt.com/profile/govandcharters.asp*). The Company will provide, free of charge, a copy of the Nominating and Governance Committee Charter to any shareholder, upon request to the Company Secretary.

During 2005, there were 6 regularly scheduled Board meetings, 2 special Board meetings and 23 meetings of standing Committees. All Directors attended at least 75% of the aggregate of all meetings of the Board and standing Committees on which they served.

It is Company practice that all Directors attend the Company s Annual Meeting. Eight Directors attended the Company s 2005 Annual Meeting. Mr. LeBoeuf was unable to attend due to a previously scheduled commitment. For 2006, the Board has scheduled five regular meetings. In conjunction with the regular meetings, those Directors who are not employees of ITT Industries are scheduled to meet privately (without management) following each Board meeting during the year. The Coordinating Director presides over these private meetings.

Compensation of Non-Employee Directors. Shareholders of the Company adopted the ITT Industries, Inc. 2003 Equity Incentive Plan, the 2003 Plan, pursuant to which restricted shares and options are granted to Non-Employee Directors. Share number and price information discussed below reflects the Company s February 21, 2006 2:1 stock split.

Under the Non-Employee Director compensation program adopted in 2003 Non-Employee Directors received: $50,000 as a retainer payable in restricted stock, $25,000 in lieu of meeting fees, payable at the election of each Director, in cash, deferred cash or additional restricted stock and a stock option award valued at $25,000. Directors were able to irrevocably elect, on an annual basis, to defer receipt of the cash portion to a future date. Such cash amounts were treated as though invested in an interest bearing account or in a fund that tracks the performance of ITT Industries common stock as selected by the Director.

In 2005, the actual number of stock options awarded was calculated by dividing $25,000 by $11.73, the Black-Scholes value of an ITT Industries stock option, consistent with the method used for the employee stock option program, rounded to the nearest 10 shares. That number of options, 2140, was received on March 8, 2005, at an exercise price of $45.47 per share, the closing price of ITT shares on that date. Non-Employee Directors also received 1,092 shares of restricted stock on May 10, 2005 as their annual retainer. In lieu of meeting

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fees, Drs. Crawford and Hamre, and Mr. Tambakeras elected to receive an additional 546 shares of restricted stock, Ms. Sanford and Mr. Hake elected to receive cash and Mr. LeBoeuf, Mr. MacInnis and Mrs. Gold elected deferred cash.

Effective December 1, 2005, the Board of Directors of ITT Industries, (upon the recommendation of its Nominating and Governance Committee,) approved changes to its Non-Employee Director compensation program. As approved, Non-Employee Directors receive total annual compensation in the amount of $180,000. Such compensation is payable as follows:

$50,000, payable at the election of each Non-Employee Director in cash or deferred cash. Directors choosing deferred cash may irrevocably elect to have the deferred cash deposited into an interest-bearing cash account, at an interest rate determined as of the Company s next annual meeting, or deposited into an account that tracks an index of the Company s common stock;

2/3 of the remainder in restricted shares; and

1/3 of the remainder in non-qualified stock options.

Additionally, the Board of Directors of ITT Industries approved (with the Audit Committee Chair abstaining) a supplemental retainer of $10,000 in cash to be paid to the Audit Committee chair, effective as of the Company s 2006 Annual Meeting.

In order to implement these changes on the December 1, 2005 effective date, the Board of Directors of ITT Industries approved a compensation adjustment for each Non-Employee Director for the 2005-2006 tenure in the amount of $40,000. The compensation adjustment was made in a form consistent with the election previously made for the 2005-2006 tenure by each Non-Employee Director. Drs. Crawford and Hamre, and Mr. Tambakeras each received an additional grant of 874 shares of ITT restricted stock. Mr. Hake and Mrs. Sanford elected to receive payment in cash. Mrs. Gold and Messrs. LeBoeuf and MacInnis elected to receive deferred cash.

On March 6, 2006 each Non-Employee Director was awarded a stock option grant of 3,040 shares at an option exercise price of $52.68 per share, the closing price of shares on that date. In 2006, the actual number of stock options was calculated by dividing $40,000 by $13.18, the binomial lattice valuation model for an ITT Industries stock option, consistent with the method used for the employee stock option program, rounded up to the nearest 10 shares.

The number of restricted shares, rounded to the nearest share, granted in May 2005, for all Non-Employee Directors under the Non-Employee Director compensation program adopted in 2003 and for the three Non-Employee Directors receiving restricted shares under the adjustment effective December 1, 2005, was determined by dividing $50,000 and $40,000, for the May 2005 grant and December 2005 grant respectively, by $45.83, the average

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of the high and low sales prices per share of ITT Industries common stock on the date of the annual meeting or as soon thereafter as legally permissible. Directors receive dividends on the restricted shares and may vote the shares during the restriction period. Restricted stock granted under these programs is held in escrow by the Company until the restrictions lapse. Non-Employee Director stock option grants are priced and awarded on the same day that employee stock options are priced and awarded.

The Board of Directors share ownership guidelines currently provide for share ownership levels at five times the annual retainer amount. Directors are encouraged to elect restricted stock as a component of the retainer until such time as his or her total share ownership meets or exceeds the ownership guidelines.

Mr. Loranger, as an employee Director, does not receive compensation for his Board service.

Restricted shares awarded under the ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors, which preceded the 2003 Plan, provided that each Director s restricted shares are held in escrow and may not be transferred in any manner until one of the following events occurs:

- the fifth anniversary of the grant of the shares unless extended as described below;
- the Director retires at age 72;
- there is a change of control of the Company;
- the Director becomes disabled or dies;
- the Director s service is terminated in certain specified, limited circumstances; or
- any other circumstance in which the Compensation and Personnel Committee believes, in its sole discretion, that the purposes for which the grants of restricted stock were made have been fulfilled and, as such, is consistent with the intention of the Plan.

Under the 1996 Restricted Stock Plan for Non-Employee Directors, Non-Employee Directors may choose to extend the restriction period for up to two successive five year periods, or until six months and one day following the Non-Employee Director s termination from service from the Board under certain permitted circumstances. The ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors also provided that if a Director ceased serving on the Board under any other circumstances, shares with respect to which the Plan restrictions have not been lifted would be forfeited. Under the 2003 Plan, the Compensation and Personnel Committee determines transfer restrictions and the period of restriction for restricted stock granted pursuant to that Plan. Directors may choose to extend the restriction period for up to two successive five year periods, or until six months and one day following the

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Director s termination of service from the Board under certain permitted circumstances.

ITT Industries, Inc. reimburses Directors for expenses they incur to travel to and from Board, Committee and shareholder meetings and for other Company-business related expenses (including the travel expenses of spouses if they are specifically invited to attend an event for appropriate business purposes). Such travel may include use of the Company aircraft if available and approved in advance by the Chairman of the Board and Chief Executive Officer. Airfare is reimbursed at no greater than first-class travel rates.

Indemnification and Insurance. As permitted by its By-laws, ITT Industries indemnifies its Directors to the full extent permitted by law and maintains insurance to protect the Directors from liabilities, including certain instances where it could not otherwise indemnify them. All Directors are covered under a non-contributory group accidental death and dismemberment policy that provides each of them with $750,000 of coverage. They may elect to purchase additional coverage under that policy. Non-Employee Directors also may elect to participate in an optional non-contributory group life insurance plan that provides $100,000 of coverage.

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Report of the Audit Committee

The following Report of the Audit Committee does not constitute soliciting material and the Report should not be deemed filed or incorporated by reference into any other previous or future filings by the Company under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates this Report by reference therein.

Role of the Audit Committee.

The Audit Committee of the Board of Directors provides oversight on matters relating to the Company s financial reporting process and assures that the Company develops and maintains adequate financial controls and procedures, and monitors compliance with these processes. This includes responsibility for, among other things:

- determination of qualifications and independence of the independent auditors;
- the appointment, compensation and oversight of the independent auditors in preparing or issuing audit reports and related work;
- review of financial reports and other financial information provided by the Company, its systems of internal accounting and financial controls, and the annual independent audit of the Company s financial statements;
- oversight and review of procedures developed for consideration of accounting, internal accounting controls and auditing related complaints;
- review of risk assessment and risk management processes; and
- adoption of and monitoring the implementation and compliance with the Company s non-audit services policy.

The Audit Committee also has oversight responsibility for confirming the scope and monitoring the progress and results of internal audits conducted by the Company s Internal Auditor. The Audit Committee discussed with the Company s Internal Auditors and Independent Auditors the plans for their respective audits. The Audit Committee met with the Internal Auditors and Independent Auditors, with and without management present, and discussed results of their examinations, their evaluation of the Company s internal controls, and the Company s financial reporting.

The Company s management has primary responsibility for the financial statements, including the Company s system of disclosure and internal controls. The Audit Committee may investigate any matter brought to its attention. In that regard, the Audit Committee has full access to all books, records, facilities and personnel of the Company and the Audit Committee may retain outside counsel, auditors or other independent experts to assist the Committee in performing its responsibilities. Any individual may also bring matters to the Audit Committee confidentially or on an anonymous basis, by submitting the matter in a sealed envelope addressed to the Audit Committee to the

Corporate Secretary who then forwards the sealed envelope to the Audit Committee.

Sarbanes-Oxley Act of 2002 (SOX) Compliance.

The Audit Committee has responsibility for monitoring all elements of the Company s compliance with Sections 302 and 404 of SOX relating to internal control over financial reporting.

Audit Committee Charter.

The Board of Directors has adopted a written charter for the Audit Committee, which the Board and the Audit Committee review, and at least annually update and reaffirm. The Charter sets out the purpose, membership and organization, and key responsibilities of the Audit Committee.

Composition of the Audit Committee.

The Audit Committee is comprised of four members of the Company s Board. The Board of Directors has determined that each Audit Committee member meets the independence standards set out in the Audit Committee Charter and Corporate Governance Principles and the requirements of the New York Stock Exchange currently in effect, including the audit committee independence requirements of Rule 10A-3 of the Exchange Act. No member of the Audit Committee has any relationship with the Company that may interfere with the exercise of independence from management and the Company. All members of the Audit Committee, in the business judgment of the full Board of Directors, are financially literate and several have accounting or related financial management expertise. The Board of Directors has identified Ralph F. Hake and Raymond W. LeBoeuf as audit committee financial experts.

Regular Review of Financial Statements.

During 2005, the Audit Committee reviewed and discussed the Company s 2005 audited financial statements with management. The Audit Committee, management and the Company s Independent Auditors reviewed and discussed the Company s unaudited financial statements before the release of each quarter s earnings report and filing on Form 10-Q, and the Company s audited financial statements before the annual earnings release and filing on Form 10-K.

Communications with Independent Auditors.

The Audit Committee has discussed with Deloitte & Touche LLP, the Independent Auditors, the matters required by Statement on Auditing Standards No. 61, *Communication with Audit Committees* (SAS 61), as modified or supplemented by the Auditing Standards Boards of the American Institute of Certified Public Accountants. These discussions included all matters required by SAS 61, including Independent Auditors responsibilities

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under generally accepted auditing standards in the United States, significant accounting policies and management judgments, the quality of the Company s accounting principles and accounting estimates. The Audit Committee met privately with the Independent Auditors 6 times during 2005.

Independence of Independent Auditors.

The Company s Independent Auditors are directly accountable to the Audit Committee and the Board of Directors. The Audit Committee has received from the Independent Auditors required written disclosures, including a formal written statement, setting out all the relationships between the Company and its Independent Auditors, as required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees,* as amended by the Independence Standards Board. The Audit Committee has discussed the Independent Auditors independence, any disclosed relationships and the impact of those relationships on the Independent Auditors independence.

Recommendation Regarding Annual Report on Form 10-K.

In performing its oversight function during 2005 with regard to financial statements for 2005, the Audit Committee relied on financial statements and information prepared by the Company s management. It also relied on information provided by the Internal Audit staff as well as the Independent Auditors. The Audit Committee reviewed and discussed with management the Company s audited financial statements as of and for the year ended December 31, 2005. Based on these discussions, and the information received and reviewed, the Audit Committee recommended to the Company s Board of Directors that the financial statements be included in the Annual Report on Form 10-K for that year (or the Annual Report to Shareholders if distributed prior to the filing of Form 10-K).

This report is furnished by the members of the 2005 Audit Committee.

2005 Audit Committee:

Ralph F. Hake, Chair
Christina A. Gold
John J. Hamre
Raymond W. LeBoeuf

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Executive Compensation

Compensation Committee Interlocks and Insider Participation

The Compensation and Personnel Committee (the Committee) of the Board of Directors of ITT Industries during the last fiscal year consisted of Mr. Tambakeras, Chair, Dr. Crawford, Mr. MacInnis and Ms. Sanford, none of whom is or formerly was an officer or employee of the Company or any of its subsidiaries.

Report of the Compensation and Personnel Committee

As indicated in the Committee s Charter, available on the Company s website at *www.itt.com/profile/govandcharter.asp*, the purpose of the Compensation and Personnel Committee is to provide oversight and review of compensation and benefits provided to the employees of the Company. The Committee evaluates and makes regular reports to the Board of Directors on matters concerning management performance, employee compensation and human resources policies, programs and plans including management development and continuity plans, and approves employee compensation programs and benefit programs. The Committee may select, retain and determine the terms of engagement for independent compensation and benefits consultants and other outside counsel, as needed, to provide independent advice to the Committee with respect to the Company s current and proposed executive compensation and employee benefit programs. During 2005, the Committee retained an independent compensation consultant.

This report discusses the application of the Company s compensation policies to ITT Industries executive officers in general, and the rationale for the decisions affecting the compensation as reported for 2005 of Steven R. Loranger, each of the four other named executive officers in the Summary Compensation Table who occupied their position on December 31, 2005, as well as Edward W. Williams and Robert L. Ayers, each of whom left their former positions as Chief Financial Officer, ITT Industries, and President, ITT Fluid Technology, respectively, during the year.

ITT Industries is a global, multi-industry engineering and manufacturing company with leading positions in the markets it serves. ITT Industries has approximately 40,900 employees located in 57 countries with 2005 sales of approximately $7.4 billion and assets of approximately $7.1 billion.

Compensation Philosophy

In establishing compensation policies and programs for 2005, the Committee considered compensation and other benefits provided to executives of corporations similar to ITT Industries. These corporations consisted of leading manufacturing companies in the S&P® Industrials Composite Index. The S&P® Industrials Composite Index is comprised of a larger number of companies than the S&P® Industrials Index, the peer group discussed below, and as such is more representative of the broad labor market in which the Company competes for executives.

ITT Industries executive compensation program historically has been designed to attract, reward, and retain capable executives and to provide incentives that vary depending upon the attainment of short-term performance objectives and strategic long-term performance goals. The major objective of the short-term annual incentive program is to link performance to specific performance targets and strategic business goals. The major objective of the long-term incentive program is to provide ITT Industries executives with incentives directly linked to the creation of shareholder value. In reviewing ITT Industries compensation programs, the Committee has agreed with management s desire to provide a clear link between compensation and performance. The Company believes that the measures of performance in its compensation programs must be aligned with the measures that are key to the success of its businesses. The strong link between compensation and performance is intended to provide incentives for achieving financial and business objectives and increasing the value of the Company s stock, thereby increasing value to our shareholders.

The Compensation Program. The executive compensation program of ITT Industries is based on current competitive compensation practices as well as on performance measures and policies that focus on the continued growth of shareholder value. Compensation for ITT Industries executives consists of base salary, annual incentives, long-term incentives including stock-based programs, and employee benefits. While the elements of compensation are described separately below, the Committee considers the total compensation package when determining each component of the named executive officer s compensation. The Company s philosophy is to target total compensation at the median of its peer group, the companies in the S&P Industrials Index, subject to individual variation based on an executive s experience and performance, and with the ability to provide for actual compensation to be higher or lower than the target level if performance or contribution to the organization is above or below expectations. The Summary Compensation Table reflects payments and awards made to Steven R. Loranger and each of the four other named executive officers in the Summary Compensation Table who occupied their position on December 31, 2005, as well as Edward W. Williams and Robert L. Ayers, who occupied positions as executive officers during the year.

Base Salary.

Salaries are set and administered to reflect the value of the job in the marketplace and individual contribution and performance. Based on a recent ITT Industries compensation survey, ITT Industries senior executive salaries are at competitive levels. Salaries provide a necessary element of stability in the total pay program. Salary increases are based primarily on merit, and during 2005 the normal interval between salary reviews for all executives was twelve months.

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The Committee reviewed the performance of the named executive officers of ITT Industries during 2005. The Committee will continue to review and assess the performance of the Chief Executive Officer and all senior executives and will authorize salary actions it believes are appropriate, commensurate with relevant competitive data and the approved ITT Industries salary administration program. As of March 1, 2006, the annual salaries of the officers named in ITT Industries Summary Compensation Table were as follows: Mr. Loranger, $1,000,000; Mr. Driesse, $520,000; Mr. Gaffney, $425,000; Mr. Maffeo, $440,000; and Mr. Minnich, $480,000. In connection with setting Mr. Loranger s base salary, the Committee considered individual and corporate performance as well as external market data. Mr. Williams resigned as Chief Financial Officer on July 1, 2005, and left the Company s employ at year end. Mr. Ayers resigned as an officer on September 30, 2005 but continues as an active employee through September 30, 2006.

Annual Incentive Plan.

For 2005, the named executive officers participated in the ITT Industries 1997 Annual Incentive Plan for Executive Officers (the AIP) approved by ITT Industries shareholders in 1997. Bonus amounts paid under the AIP were based on the financial performance of ITT Industries during 2005 as compared with the annual performance goals established and approved by the Committee at the beginning of the 2005 performance year. The amounts paid with respect to performance year 2005 reflect ITT Industries strong overall operational and financial performance during the year. The bonus awards for 2005 shown in the Summary Compensation Table following this report include payments in accordance with the AIP and an additional payment made outside the plan to Mr. Maffeo in the amount of $16,402 to recognize individual performance. For performance year 2005 the approved annual performance goals were based 60% on Return on Invested Capital (ROIC), 20% on Revenues and 20% on Quarterly Cash Targets. The Company considers ROIC an easily understood measurement of capital utilization in the Company s businesses. Additionally, the Committee established individual award targets which varied by position as a percentage of base salary, with the award targets for the Chief Executive Officer and the other named executive officers ranging from 60% to 100% of base salary. Actual payment under the plan is discretionary, may range from zero to a maximum of 200% of target, and may not exceed the approved performance targets established by the Committee.

For performance year 2006, the Committee determined that bonus opportunities under the AIP will be dependent on the same basic corporate performance goals (ROIC, Revenues and Quarterly Cash Targets) with the same weighting as set forth above, except that for the named executive officers in ITT Industries commercial businesses (which excludes the defense industry businesses) the first component, ROIC, is set at 40% and the remaining 20% of the first component is dependent on Operating Margin rate, and for the named executive officers in ITT Industries Corporate Headquarters, the first component, ROIC, is set at 40% and the remaining 20% of the first component is dependent on Earnings Before Interest and Taxes (EBIT) margin rate performance. This formula change for 2006 is based on the Committee s determination that Operating Margin rate is an appropriate measure for the performance of the Company s commercial businesses, and EBIT margin rate is an appropriate measure for Corporate Headquarters. Operating Margin rate and EBIT margin rate are not employed in the defense industry businesses, as these businesses contain components where margin rates often are contractually limited.

For 2006, the Committee determined award targets for the Chief Executive Officer and the other named executive officers ranging from a minimum of 65% to a maximum of 110% of the individual s base salary. In order for payment to be earned under the AIP for 2006 (Base Bonus), achievement of 90% or more of the approved targets at Corporate Headquarters, or at the relevant management company must be achieved. Additionally, the AIP includes a 2006 Bonus Multiplier (Bonus Multiplier) which becomes effective based on a growth threshold determined by earnings per share from continuing operations for 2006 over 2005. The Bonus Multiplier will be applied to the individual s calculated Base Bonus amount under the AIP, and is designed to place additional emphasis on achieving premier earnings growth at the overall enterprise level while encouraging focus on management company and value center performance. The factors identified by the Committee in setting the AIP bonus opportunities reflect our commitment to profitable performance, margin rate expansion (as applicable to non-defense businesses), revenue growth, cash generation and ROIC expansion. The Bonus Multiplier provides a performance factor which encourages all of our businesses to contribute toward the Company s goal to reach premier status. Actual individual payments under the AIP for 2006 are discretionary and may not exceed the approved performance targets established by the Committee. The combination of the Base Bonus and Bonus Multiplier amount may range from zero to a maximum 250% of target. Discretionary factors may be considered by the Committee when determining the amounts, if any, to be paid for performance year 2006. The Committee may make adjustments to awards within the approved performance guidelines based upon significant events or circumstances, including but not limited to acquisitions, divestitures or changes in accounting principles.

Long-Term Incentive Award Program.

ITT Industries Long-Term Incentive Award Program is based on the competitive market and designed to link incentive awards directly to the creation of shareholder value. The target value of each award is determined based on market data, individual contribution and business performance, and is approved each year by the Committee. For 2005, all executives were eligible to participate in the program through non-qualified stock options. For senior executives, the total award value was split equally between non-qualified stock options and target cash awards under the Long-Term Incentive Plan (described on page 40).

For 2006, all executives are eligible to participate in the program through restricted stock. For senior executives and approximately fifty-five additional executives in the next management levels, the 2006 total award value is split as follows: 50% in target cash based on total shareholder return; 25% in non- qualified stock options and 25% in restricted shares. Non-qualified stock options granted in 2006 vest and become exercisable three years from the date of grant for senior executives and vest in one-third annual installments on the first, second and third anniversary of the grant date for remaining executives. The option term is seven years. For 2006, unvested options expire upon termination of employment or resignation.

The components of the Long-Term Incentive Award Program, which are Stock-Based awards and Long-Term Incentive Plan awards, are described in detail below.

Stock-Based Awards.

Restricted Stock:

Restricted stock is the incentive component utilized for all executive participants in the Company s Long-Term Incentive Award Program described above. Restricted stock provides long-term incentives that are directly related to the performance of ITT Industries common stock and closely align executives interests with those of other shareholders. Approximately 392,854 shares of restricted stock were granted effective March 6, 2006 to 428 executives under the ITT Industries, Inc. 2003 Equity Incentive Plan (the 2003 Plan). Awards to the named executive officers were as follows: Mr. Loranger, 23,706 shares; Mr. Driesse, 5,689 shares; Mr. Gaffney, 4,267 shares; Mr. Maffeo, 3,793 shares; and Mr. Minnich, 5,215 shares. Restricted stock awards are subject to a three-year period of restriction.

Stock Options:

Approximately 543,015 non-qualified stock options were granted effective March 6, 2006 to approximately 108 executives under the ITT Industries Inc. 2003 Plan. Options awarded under the Plan are granted at the closing price of ITT Industries shares on the New York Stock Exchange on the date of grant. Grants to the named executive officers were as follows: Mr. Loranger, 83,612 shares; Mr. Driesse, 20,067 shares; Mr. Gaffney, 17,071 shares; Mr. Maffeo, 13,378 shares; and Mr. Minnich, 18,395 shares. For Messrs. Loranger, Driesse, Gaffney, Maffeo, and Minnich, such options were granted on March 6, 2006 at an option exercise price of $52.68 per share. The options granted to Messrs. Loranger, Driesse, Maffeo and Minnich will vest and become exercisable three years from the date of grant. The options for Mr. Gaffney vest in one-third cumulative annual installments on the first, second and third anniversary of the grant date. The option term for all options granted is seven years.

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Non-qualified stock options issued prior to March 8, 2005 had terms of ten years. Stock options awarded to the named executive officers, except for Mr. Gaffney, on and after March 8, 2005 and prior to March 6, 2006 vest upon a 25% appreciation in ITT Industries common stock price for ten (10) consecutive trading days. The options may not be exercised, in any event, earlier than three years from the grant date. If the option threshold is not achieved, the options vest six years from the grant date and may be exercised for the remainder of the option term. The option term is seven years. The vesting conditions for Mr. Gaffney s 2005 options are the same as for the 2006 award described above. The stock option tables on pages 54 to 55 provide information relating to stock options held by the individuals named in the Summary Compensation Table on page 50. Restricted stock and stock option awards closely align the Company s performance in creating shareholder value.

Long-Term Incentive Plan Awards.

The ITT Industries 1997 Long-Term Incentive Plan (the LTIP), approved by shareholders in 1997, authorizes performance awards to be made to key employees of ITT Industries at the discretion of the Committee. In 2006 the Company expanded eligibility for participation in this plan to include senior executives and approximately fifty-five additional executives in the next management levels, revising its prior practice that only the most senior executives participate in this plan. Awards granted under the plan are expressed as target cash awards and comprise 50% of the total long-term incentive value. The balance of the total long-term award value is comprised 25% in non-qualified stock options and 25% in restricted stock as discussed above.

The provisions of the LTIP provide that the Committee shall determine the size and frequency of awards, performance measures, performance goals and performance periods. The size of the awards is determined by the Committee in order to meet competitive practice. Payment, if any, of target cash awards generally will be made at the end of the applicable three-year performance period and will be based on ITT Industries performance measured against the total shareholder return (TSR) performance of other stocks comprising the S&P Industrials Index, the performance measure approved by the Committee prior to the performance period.

Payment, if any, of awards may be made in whole or in part, at the discretion of the Committee, in the form of cash and/or common stock of ITT Industries. The Committee determined that payment for the awards granted in 2003 be made wholly in cash. It is anticipated that future payments under the LTIP will continue to be made entirely in cash.

The Committee granted 2006 target awards under the LTIP to 108 key employees valued at $14,490,500 and one award made outside the LTIP valued at $500,000. The performance period with respect to the 2006 awards is three years beginning January 1, 2006. The 2006 target awards made to each of the individuals named in the Summary Compensation Table are as follows:

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Mr. Loranger, $2,000,000; Mr. Driesse, $600,000; Mr. Gaffney, $450,000; Mr. Maffeo, $400,000, and Mr. Minnich, $550,000. Mr. Loranger also received a 2006 target phantom TSR Award of $500,000 which is subject to the same performance thresholds and conditions as awards under the LTIP. The ultimate value, if any, of each of these awards will be determined in accordance with the established performance measurement formula for the target awards granted in 2006. The Committee designated a minimum 35th percentile performance level at which a 50% payout would be earned and fixed a maximum performance payment of 200% earned for performance at or above the 80th percentile. The payout is zero under 35th percentile performance. The award amounts set forth above would be the amounts earned if the formula results in payment at the 100% level. Payment, if any, with respect to the 2006 target awards will be based on the Company s total shareholder return performance compared with the performance of other stocks comprising the S&P® Industrials Index.

Messrs. Driesse, Gaffney, Maffeo, Williams, and Ayers received target awards in 2003 under the ITT Industries LTIP. Mr. Loranger received a 2003 target award upon commencement of his employment with the Company. These awards were subject to a three-year performance period ending December 31, 2005 and were subject to achievement of pre-established goals, as approved by the Committee in 2003, measuring ITT Industries performance with respect to total shareholder return against the performance of other stocks comprising the S&P® Industrials Index. LTIP payments were made in strict accordance with the plan as measured for the period January 1, 2003 through December 31, 2005 and are shown in the Summary Compensation Table on page 50. Based on the Company s performance at the 59.53 percent rank of the S&P® Industrials Index, payout was at 131.77% of target, which was in accordance with the approved formula. The Committee determined that payment be made wholly in cash.

Payment or vesting of awards made under the Long-Term Incentive Program would be accelerated upon the occurrence of a change in control of ITT Industries as described on pages 57 to 59.

Mr. Loranger s Compensation Arrangements.

Mr. Loranger entered into an employment agreement (The Steven R. Loranger Employment Agreement) with the Company under which he serves as President and Chief Executive Officer, as well as a member of the Board of Directors. The term of Mr. Loranger s employment agreement is from June 28, 2004 to June 27, 2007, subject to automatic 12-month extensions unless ITT Industries or Mr. Loranger gives at least 180 days prior written notice of non-extension. Mr. Loranger received a base salary of $900,000 under the agreement, subject to increase by the Board of Directors. He is eligible to receive an annual cash bonus under the AIP based upon the achievement of performance targets established by the Committee, with a target bonus equal to 100% of his base salary and a maximum bonus equal to 200% of his base salary. In March 2006, the Committee set Mr. Loranger s target AIP bonus at 110% of his base salary for the 2006 performance year, such AIP award, if any to be paid in 2007.

Pursuant to The Steven R. Loranger Employment Agreement, Mr. Loranger received a grant by ITT Industries in the 2005 fiscal year of a long-term incentive award with an aggregate target value of $4,500,000, consisting of (i) a target award in the amount of $1,800,000 granted pursuant to the LTIP for the performance period January 1, 2005 through December 31, 2007 and (ii) a target award in the amount of $450,000 under terms identical to those of the LTIP (but not awarded under the LTIP) (the Phantom LTIP Award), to be paid on or before March 30, 2008 in cash, shares or a combination thereof, plus (iii) a non-qualified stock option grant with an aggregate value of $2,250,000 made during the first quarter of 2005 pursuant to the 2003 Plan. Mr. Loranger also participates in the LTIP for the performance periods January 1, 2003 through December 31, 2005 and January 1, 2004 through December 31, 2006, with a target award for each such performance period of $1,800,000. Payment for the 2003 target LTIP awards was made in January 2006 and such amount is included in the Summary Compensation Table on page 50. Mr. Loranger also will be eligible for an additional Phantom LTIP Award in respect of each of the 2003-2005 and 2004-2006 performance periods in the target amounts of $700,000, in accordance with his employment agreement. Mr. Loranger received sign-on awards of 250,000 non-qualified stock options and 250,000 restricted stock units on June 28, 2004, as adjusted to reflect the February 21, 2006 2:1 stock split.

Mr. Loranger is eligible to participate in the Company s benefit plans on the same basis as other senior executives, may use corporate aircraft for business travel and occasional personal use (when not otherwise scheduled for business use), receives a monthly automobile allowance of $1,300, and may receive reimbursement for the initiation fee and dues for at least one business club.

The agreement provides for a non-qualified pension arrangement if Mr. Loranger s employment is terminated on or after June 28, 2009. This arrangement provides for an annuity paid monthly over Mr. Loranger s life, calculated as a percentage of his average annual compensation for the five years in which his compensation was highest, which percentage ranges from 38% if Mr. Loranger is age 57 upon the date of his termination through 50% if Mr. Loranger is at least age 60 on the date of his termination. If Mr. Loranger s employment is terminated prior to June 28, 2009 by the Company without cause or by Mr. Loranger for good reason (as each such term is defined in the employment agreement), in either case upon or following a change of control (as defined in the employment agreement), Mr. Loranger shall be entitled to receive a lump-sum payment of the actuarial present value of this non-qualified pension. These pension benefits are offset by any benefits to which he is entitled (or which he already has received) under other defined benefit pension arrangements maintained by the Company or any prior employer. Mr. Loranger is entitled to retiree medical coverage as in effect for persons joining the Company on June 28, 2004 (the effective date of Mr. Loranger s employment), provided that if his employment is terminated by ITT Industries without cause or by him for good reason on or after June 28, 2005, that termination will be considered a retirement under the Company s retiree medical plan and entitle him to receive benefits under that arrangement. If Mr. Loranger s employment terminates due to disability, death or retirement, he (or his estate) will be entitled to receive a pro-rata target bonus for the year of termination and the target award for each outstanding LTIP award and Phantom LTIP Award. If Mr. Loranger s employment is terminated by the Company without cause or by Mr. Loranger for good reason (other than during the two-year period following a change in control), he will be entitled to receive a pro-rata target bonus for the year of termination, plus continued payment of his base salary and target bonus for a period of two years from the date of termination. If within the two-year period following a change in control the Company terminates Mr. Loranger s employment without cause or Mr. Loranger terminates his employment for good reason, ITT Industries will pay Mr. Loranger a lump sum payment consisting of (i) a pro-rata target bonus for the year of termination and (ii) a severance payment equal to three times the sum of his base salary and the highest bonus paid to him in the three years prior to the change in control. Mr. Loranger also receives continued health and welfare benefits for up to two years following a termination without cause or for good reason (whether before or after a change in control). If Mr. Loranger s employment is terminated at the end of the initial term or any successive twelve-month renewal period on account of the Company giving a non-extension notice, such termination will be treated as a termination without cause, except that his base salary and target bonus will only be continued for one year. If any payments to Mr. Loranger are determined to be excess parachute payments under Section 280G of the Internal Revenue Code of 1986, as amended, he will receive a gross-up payment in respect of the excise taxes incurred by him. All severance payments are conditioned upon Mr. Loranger s execution of a general release. Mr. Loranger is subject to two-year, post-termination non-compete and non-solicitation covenants. There were no changes to Mr. Loranger s agreement during 2005.

Mr. Minnich s Compensation Arrangements.

Mr. Minnich accepted an offer of employment with the Company as its Senior Vice President and Chief Financial Officer, (the Minnich Letter Agreement) effective July 1, 2005. The Minnich Letter Agreement provides for, among other things, annual base salary, annual incentive and long-term incentive. Under the Minnich Letter Agreement, Mr. Minnich received an annual base salary of $460,000, and an annual incentive payment calculated in accordance with the ITT Industries AIP for Executive Officers. However, the Minnich

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Letter Agreement provides that if the bonus calculated under the plan is less than $345,000 or 75% of annual base salary, a separate payment will be made outside the plan such that the total payment will be no less than $345,000 or 75% of annual base salary for the 2005 performance year. In March, 2006, Mr. Minnich received an AIP payment of $475,000 for 2005. Mr. Minnich also received, under the Minnich Letter Agreement, 50,000 non-qualified stock options granted under the 2003 Plan with an exercise price of $49.27, the closing price of ITT Industries common stock on the first day of his employment, as adjusted to reflect the February 21, 2006 2:1 stock split. The stock options are exercisable upon the earlier of (1) a 25% closing share price appreciation for ten consecutive days as reported by the New York Stock Exchange or (2) six years from the date of grant. However, these options may not be exercised earlier than three years from the grant date and have a term of seven years. Mr. Minnich also received the following target awards under the LTIP: a 2004 target award of $250,000 with a measurement period of January 1, 2004 through December 31, 2006 with payment, if any, to be made in January 2007, and a 2005 target award of $500,000 with a measurement period January 1, 2005 through December 31, 2007 with payment, if any, to be made in January 2008. Mr. Minnich additionally received a restricted stock award of 20,000 shares of restricted stock granted under the ITT Industries 2003 Equity Incentive Plan on his first day of employment, (as adjusted to reflect the February 21, 2006 2:1 stock split). The restricted stock vests in installments of 10,000 shares after three years from the date of grant, and 10,000 shares after five years from the date of grant. Upon termination prior to the vesting date, other than for cause, restrictions with respect to restricted shares lapse and Mr. Minnich will receive these shares without restriction, upon satisfactory payment to ITT Industries of any tax obligation.

Mr. Minnich also receives a monthly automobile allowance of $1,300 and received reimbursement of relocation costs in accordance with Company policy, payment of all appropriate closing costs associated with the purchase of a residence in the White Plains, New York area and a one-month salary as a settling-in allowance on a tax-protected basis. Mr. Minnich is covered under the ITT Industries Senior Executive Severance Pay Plan, but will receive a severance benefit equal to two years of base salary if terminated other than for cause. If terminated other than for cause during the first three years of employment, an additional lump sum termination payment of $515,000 will be paid. Mr. Minnich is also covered under the ITT Industries, Inc. Special Senior Executive Severance Pay Plan which provides, in part, for severance pay equal to the sum of three times the highest annual base salary rate paid and three times the highest bonus paid in respect of the three years preceding a change of control. For purposes of this plan, if Mr. Minnich is terminated during the first year of employment the base salary rate shall be the current salary and the bonus for the performance year 2005 will be a target of 75% of said base salary. Mr. Minnich is eligible to participate in the Company s benefit plans on the same basis as other senior executives. There were no changes to Mr. Minnich s agreement during 2005.

Mr. Ayers Compensation Arrangements.

On September 7, 2005, the Company and Robert L. Ayers, formerly President of the Company s Fluid Technology business segment, entered into a Separation Agreement and General Release (the Ayers Agreement) effective as of September 30, 2005. The material terms and conditions of the Ayers Agreement provide for, among other things, a one-year Employment Period through September 30, 2006 and a Transition Period, both terms as defined in the Ayers Agreement, commencing October 1, 2006 and ending on September 30, 2008. During the Employment Period, Mr. Ayers will no longer be an officer of the Company or any of its affiliates or subsidiaries, but shall perform such duties, with respect to the Company s Fluid Technology business segment, as shall be assigned from time to time by the Chief Executive Officer of the Company. Mr. Ayers will continue to receive a base salary of $460,000 and benefits under the Company s salaried benefit program through September 30, 2008. In addition, during the Employment Period, Mr. Ayers will be entitled to an automobile allowance of $1,300 per month, financial counseling and tax preparation services as well as an annual physical examination to the same extent such services are provided to other senior executives of the Company, and use of a reserved place at a golf facility. Mr. Ayers also received an incentive bonus for the performance year ending 2005 (calculated at the adjusted performance factor for the Company s Fluid Technology business segment) and will receive a pro-rata bonus for the performance year ending 2006, each such bonus calculated based on a target of 65% of base salary.

Subject to the achievement of applicable Company performance targets established under the LTIP, Mr. Ayers is eligible to receive payment, if any, under the LTIP determined as if Mr. Ayers employment with the Company terminated on December 31, 2005. Payment for Mr. Ayers 2003 target award was calculated based on a 100% (36 month) performance period ending on December 31, 2005; he received a payment of $572,014 for his 2003 award. Any payment for his 2004 target award will be calculated based on 91.6% of the performance period ending on December 31, 2006 and any payment for his 2005 target award will be calculated based on 58.3% of the performance period ending on December 31, 2007.

During the Employment Period and Transition Period, Mr. Ayers agreed that the payments and benefits provided by the Company are contingent upon his not becoming an employee of any other entity, and during the Employment Period not engaging in any self-employment for remuneration. During the Transition Period, Mr. Ayers may engage in non-competitive self-employment with respect to any personal or family business in which he has a significant financial interest. Mr. Ayers is also subject to certain non-solicitation

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restrictions, and agreed to his continued availability to render reasonable assistance to the Company. Effective October 1, 2008, Mr. Ayers will be eligible to receive a standard early retirement and pension benefit under the Company s tax-qualified and excess defined benefit pension plans, and coverage under the Company s retiree health and health insurance plans, to the extent such plans are in effect on October 1, 2008. There were no changes to Mr. Ayers employment agreement during 2005.

Mr. Williams Compensation Arrangements.

In 2004, the Committee approved the compensation arrangements described below with respect to Mr. Williams continued employment through January 1, 2006. Pursuant to those arrangements, Mr. Williams was paid a cash retention bonus of $1 million upon completion of his service.

Long-Term Incentive Awards: Mr. Williams was granted a 2003 target award of $620,200 under the LTIP.

Mr. Williams received $817,238 subject to the performance of ITT Industries during the performance period and in accordance with the provisions of the plan. Mr. Williams was also granted a 2004 target award of $566,700. Payment, if any, will be in accordance with the terms of the plan at the end of the performance period. There were no changes to Mr. Williams employment agreement during 2005.

Share Ownership Guidelines.

The Committee maintains share ownership guidelines for corporate officers, which were approved by ITT Industries Board of Directors during 2001. These guidelines specify the desired levels of Company stock that each officer should own, and encourage a set of behaviors to enable each officer to reach the guideline levels of ownership.

The approved guidelines require share ownership expressed as a multiple of base salary for all corporate officers. Specifically the guidelines apply as follows: chief executive officer at five times base salary; chief financial officer at three times base salary; senior vice presidents and management company presidents at two times base salary; and all other corporate vice presidents at one times base salary.

In achieving these ownership levels, shares owned outright, Company restricted stock and restricted stock units, shares held in the Company s dividend reinvestment plan, shares owned in the Company s investment and savings plan, and phantom shares held in the deferred compensation plan are considered. To attain the ownership levels set forth in the guidelines it is expected that any restricted shares that become unrestricted will be held, that all shares earned through any payout of the Company s LTIP will be held, and that all shares acquired through exercise of stock options will be held, except in all cases to the extent necessary to meet tax obligations. The Committee monitors compliance with the guidelines periodically, and as of February 28, 2006, the share ownership levels have been substantially met.

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Employee Benefits.

Executives also participate in ITT Industries broad-based employee benefits program that includes a pension program, an investment and savings plan, group medical and dental coverage, group life insurance, and other benefit plans. The named executive officers also participate in certain other benefit programs that are described on pages 56 through 62. Under the deferred compensation plan, executives with an annual base salary of $200,000 or more may elect to defer receipt of all or a portion of their AIP earned payment. The amount of deferred compensation ultimately received is based on the performance of benchmark investment funds made available under the deferred compensation plan as selected by the executive. Participants in the deferred compensation plan may elect a fund that tracks the performance of ITT Industries common stock.

Although the Committee believes that ITT Industries should strive to structure its compensation program for senior executives in a manner that would permit deductibility under the Internal Revenue Code, it realizes that the evaluation of the overall performance of the senior executives cannot be reduced in all cases to a fixed formula. There may be situations in which the prudent use of discretion in determining pay levels is in the best interest of ITT Industries and its shareholders. Under some circumstances the use of discretion in determining appropriate amounts of compensation may be desirable. In those situations where discretion is used, compensation may not be fully deductible on ITT Industries tax return. However, the Committee does not believe that such loss of deductibility would have any material impact on the financial condition of ITT Industries.

This report is furnished by the members of the 2005 Compensation and Personnel Committee.

2005 Compensation and
Personnel Committee:

Markos I. Tambakeras, Chair
Curtis J. Crawford
Frank T. MacInnis
Linda S. Sanford

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Performance Graph

	12/31/00	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05
ITT Industries, Inc.	$ 100.00	$ 132.06	$ 160.18	$ 197.96	$ 227.24	$ 278.72
S&P® 500 Stock Index	$ 100.00	$ 88.11	$ 68.64	$ 88.33	$ 97.94	$ 102.75
S&P® 500 Industrials Index	$ 100.00	$ 94.26	$ 69.43	$ 91.78	$ 108.33	$ 110.85

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Equity Compensation Plan Information

The following sets forth information concerning the shares of common stock that may be issued under equity compensation plans as of December 31, 2005 adjusted to reflect the Company s February 21, 2006 2:1 stock split.

Plan Category	(a) Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (Thousands)		(b) Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (Thousands)
Equity Compensation Plans Approved by Security Holders(1)(2)(3)	13,143	$	32.88	4,316
Equity Compensation Plans Not Approved by Security Holders	None		None	None
Total	13,143	$	32.88	4,316

(1) Number of securities and Weighted-Average Exercise Price reflects the Company s 2:1 stock split, effective as of February 21, 2006.

(2) Equity compensation plans approved by shareholders include the 1994 ITT Industries Incentive Stock Plan, the ITT Industries 1996 Restricted Stock Plan for Non-Employee Directors, the 2002 ITT Industries Stock Option Plan for Non-Employee Directors and the ITT Industries, Inc. 2003 Equity Incentive Plan.

(3) Since the approval of the ITT Industries, Inc. 2003 Equity Incentive Plan, no additional awards, including awards of restricted stock, will be granted under the other plans referred to in footnote (2) above. Under the 2003 Plan, restricted stock and restricted stock units may be awarded up to a maximum aggregate grant of 300,000 shares or units in any one plan year to any one participant.

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Compensation of Executive Officers

The following table shows the annual and long-term compensation paid or awarded during the three-year period ended December 31, 2005 to Mr. Loranger, Mr. Williams, Mr. Ayers and the four other most highly paid executive officers of ITT Industries for 2005. Share numbers are adjusted to reflect the Company s February 21, 2006 2:1 stock split.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation: Awards		Long-Term Compensation: Payouts	
Name and Principal Position	**Year**	**Salary ($)(1)**	**Bonus ($)**	**Other Annual Compensation ($)(2)**	**Restricted Stock Award(s) ($)(3)**	**Securities Underlying Options/ SARs (#)(4)**	**LTIP Payouts ($)(5)**	**All Other Compensation ($)(6)**
Steven R. Loranger	2005	900,000	1,363,500	154,133		199,120	3,294,250	31,325
Chairman, President and	2004	467,308	1,000,000	117,654	10,378,750	250,000		10,731
Chief Executive Officer ITT Industries	2003							
Henry J. Driesse	2005	437,442	700,000	12,485	1,149,200	47,560	544,737	15,135
Senior Vice President	2004	395,000	500,000	10,040		46,000	706,000	13,825
ITT Industries and President Fluid Technology	2003	355,192	432,000	8,392		40,000	606,000	12,432
Steven F. Gaffney,	2005	339,636	492,000	238,629	689,520	33,000	299,645	11,712
Vice President	2004	309,757	237,500	41,510		23,000	296,600	9,726
ITT Industries and President-ITT Defense	2003	275,769	230,000	67,232		22,000	169,600	5,273
Vincent A. Maffeo	2005	419,635	400,000	22,704		33,180	544,737	14,512
Senior Vice President	2004	420,346	300,000	16,623		32,000	706,000	14,712
and General Counsel ITT Industries	2003	392,519	392,571	10,250		40,000	581,800	13,738
George E. Minnich	2005	231,769	475,000	73,876	985,400	50,000		4,920
Chief Financial	2004							
Officer-ITT Industries	2003							
Edward W. Williams	2005	477,792	545,400	83,036		50,000	817,238	1,092,286
	2004	480,846	360,000	14,768		56,000	508,400	16,829

Retired January 1, 2006 as Senior Vice President ITT Industries(7)	2003	380,577	540,000	14,919	60,000	412,000	13,320
Robert L. Ayers	2005	460,000	435,344	21,568	33,840	572,014	19,603
Resigned September 30, 2005	2004	474,904	270,000	12,360	40,000	706,000	16,622
as Senior Vice President ITT Industries and President Fluid Technology(7)	2003	443,385	235,414	13,543	42,000	606,000	15,518

(1) The amounts shown in this column represent salary payments made in 2005, for the period from January 3, 2005 through December 30, 2005.

(2) The table on the next page sets forth additional detail regarding amounts shown under Other Annual Compensation.

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Other Annual Compensation

Name	Year	Aircraft Usage ($)(8)	Tax Reimbursements ($)(9)	Car Allowances ($)	Business Club Dues ($)	Total Other Annual Compensation ($)
Steven R. Loranger	2005	96,626	32,707	15,600	9,200	154,133
	2004	50,664	58,890	8,100		117,654
	2003					
Henry J. Driesse	2005	3,745	831	7,909		12,485
	2004	1,570	32	8,438		10,040
	2003		1,257	7,135		8,392
Steven F. Gaffney	2005	1,231	233,729	3,669		238,629
	2004		25,250	16,260		41,510
	2003		64,000	3,232		67,232
Vincent A. Maffeo	2005		7,033	15,671		22,704
	2004		6,373	10,250		16,623
	2003			10,250		10,250
George E. Minnich	2005		66,076	7,800		73,876
	2004					
	2003					
Edward W. Williams	2005		70,436	12,600		83,036
	2004		1,210	13,558		14,768
	2003		1,169	13,750		14,919
Robert L. Ayers	2005		6,832	14,736		21,568
	2004	5,423	3,177	3,760		12,360
	2003		8,708	4,835		13,543

(3) The amount for Mr. Driesse represents the value on October 3, 2005 of 20,000 shares of restricted stock, awarded on that date in connection with his transfer to Fluid Technology, as adjusted to reflect the February 21, 2006 2:1 stock split. The amount for Mr. Gaffney represents the value on October 3, 2005 of 12,000 shares of restricted stock, as adjusted to reflect the February 21, 2006 2:1 stock split, in connection with his promotion as President of ITT Defense. The amount for Mr. Minnich represents the value on July 1, 2005 of 20,000 shares of restricted stock, as adjusted to reflect the February 21, 2006 2:1 stock split, in connection with his offer of employment. For Mr. Driesse, the restricted stock vests one-half after three years from date of grant and one-half after four years from date of grant. For Messrs. Gaffney and Minnich, the restricted stock vests one-half after three years from date of grant and one-half after five years from date of grant. The value of such restricted stock at December 30, 2005 for Mr. Driesse was $1,028,200, for Mr. Gaffney was $616,920, and for Mr. Minnich was $1,028,200.

(4) The number and grant price of stock options have been adjusted to reflect the February 21, 2006 2:1 stock split. Messrs. Loranger, Driesse, Maffeo and Ayers each received a stock option grant on March 8, 2005 at a $45.47 option exercise price. Mr. Gaffney received 23,000 options at a $45.47 option exercise price on March 8, 2005 and 10,000 options at a $57.45 option exercise price on October 3, 2005. Mr. Williams received a stock option grant on March 29, 2005 at a $44.27 option exercise price. The named executive officers do not hold stock

appreciation rights in connection with the options shown.

(5) Amounts shown in this column for 2005 represent the aggregate payout value of the 2003 target award subject to a 3-year performance period ended December 31, 2005. Payments were made entirely in cash. Amounts shown in this column for 2004 represent the aggregate payout value of the 2002 target award subject to a 3-year performance period

ended December 31, 2004. Payments were made entirely in cash. Amounts shown in this column for 2003 represent the aggregate payout value of the 2001 target award subject to a 3-year performance period ending December 31, 2003. Payments were made entirely in cash.

(6) The amounts show in this column for all named executive officers are Company contributions under the ITT Industries Investment and Savings Plan for Salaried Employees and the ITT Industries Excess Savings Plan, which are defined contribution plans. ITT Industries makes a matching contribution in an amount equal to 50% of an employee s contribution, such matching contribution not to exceed three percent of such employee s salary. Under these plans, ITT Industries also makes a non-matching contribution equal to one-half of one percent of an employee s salary. The amounts applicable to the Investment and Savings Plan for 2005 were as follows: $7,175 each for Messrs. Loranger, Driesse, Gaffney Williams, Ayers and Maffeo, and $4,920 for Mr. Minnich. The amounts applicable to the Excess Savings Plan for 2005 were as follows: Mr. Loranger, $24,150; Mr. Driesse, $7,960; Mr. Gaffney, $4,537; Mr. Maffeo, $7,337; Mr. Williams, $9,373 and Mr. Ayers, $8,750. Mr. Minnich did not participate in the Excess Savings Plan since he had less than one year in the plan and did not reach the earnings limit. The amount shown includes a cash retention payment of $1 million paid to Mr. Williams, as discussed on page 46, and costs associated with a Company provided apartment pursuant to his compensation arrangement and $3,678 for Mr. Ayers for costs in connection with his compensation arrangement.

(7) Mr. Williams resigned as Chief Financial Officer on July 1, 2005. Mr. Ayers resigned as an officer effective September 30, 2005. See Mr. Ayers Compensation Arrangements on pages 45 to 46 for discussion of his status under a Separation Agreement and General Release effective that date.

(8) This column represents the actual incremental cost to the Company associated with the non-business use of the Company provided aircraft. Non-variable costs which would have been incurred regardless of whether the aircraft was used for personal flights are not included. Income related to personal use of the corporate aircraft is imputed to the named executive officers as required for federal income tax purposes. None of the named executive officers used the corporate aircraft for personal use in 2003.

(9) Tax reimbursement allowances are intended to offset the inclusion in taxable income of certain benefits with respect to items such as relocation, financial counseling and tax preparation services. For Mr. Loranger, tax reimbursement includes allowances of $29,151 with respect to relocation during 2005. For Mr. Williams the amount includes allowances of $61,718 for his apartment and garage and $7,343 for financial counseling services. For Mr. Gaffney, the amount includes allowances of $233,729 with respect to relocation during 2005. For Mr. Minnich, the amount includes allowances of $44,335 with respect to relocation during 2005, and allowances of $21,740 for financial counseling services.

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Option Grants During 2005

The following table provides information about options granted on March 8, 2005 to Messrs. Loranger, Driesse, Gaffney, Maffeo and Ayers, on October 3, 2005 to Mr. Gaffney, on July 1, 2005 to Mr. Minnich and on March 29, 2005 to Mr. Williams. The options awarded to all named executive officers in the table below, except for those awarded to Mr. Gaffney, will vest and become fully exercisable on the earlier of:

- a 25% increase in the closing price on the New York Stock Exchange above the option exercise price for a period of ten consecutive trading days; however, notwithstanding when that threshold is achieved, no option will be exercisable before three years from date of grant, or

- the sixth anniversary of the date the options were granted.

The options awarded to Mr. Gaffney will vest and become exercisable as to one third of the option shares on each of the first, second, and third anniversaries of the respective grant dates.

Options granted during 2005 have a seven year term.

Share number and price per share are adjusted to reflect the Company s February 21, 2006 2:1 stock split.

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Option/SAR Grants in Last Fiscal Year

	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(2)	
Name	Number of Securities Underlying Options/ SARs Granted (#)(1)	% of Total Options/ SARs Granted to Employees in 2005	Exercise or Base Price $/ Share	Expiration Date	5%	10%
Steven R. Loranger	199,120	5.3	45.47	3-8-2012	$ 3,685,711	$ 8,590,037
Henry J. Driesse	47,560	1.3	45.47	3-8-2012	880,336	2,051,738
Steven F. Gaffney	23,000	.6	45.47	3-8-2012	425,730	992,220
	10,000	.3	57.45	10-3-2012	234,000	545,100
Vincent A. Maffeo	33,180	.9	45.47	3-8-2012	614,162	1,431,385
George E. Minnich	50,000	1.3	49.27	7-1-2012	1,002,500	2,337,500
Edward W. Williams	50,000	1.3	44.27	3-29-2012	900,500	2,100,000
Robert L. Ayers	33,840	.9	45.47	3-8-2012	626,378	1,459,858

(1) ITT Industries did not grant SARs during 2005. For discussion of the material terms of the 2005 option grants, see Report of the Compensation and Personnel Committee on page 40.

(2) At the end of the term for the options granted on March 8, 2005, to Messrs. Loranger, Driesse, Gaffney, Maffeo and Ayers, the projected price of a share of ITT Industries common stock would be $63.98 and $88.61 at assumed annual appreciation rates of 5% and 10%. At the end of the term for the option granted on October 3, 2005 to Mr. Gaffney, the projected prices would be $80.85 and $111.96 at assumed annual appreciation rates of 5% and 10%. For Mr. Minnich the projected prices for options granted on July 1, 2005 would be $69.32 and $96.02 at assumed annual appreciation rates of 5% and 10%. For Mr. Williams the projected prices for options granted on March 29, 2005 would be $62.28 and $86.27 at assumed annual appreciation rates of 5% and 10%.

Aggregated Option/SAR Exercises During Last Fiscal Year and FY-End Option/SAR Values

The table below provides information about:

- options exercised during 2005 by the named executive officers; and
- the value of each of their unexercised options at December 31, 2005, calculated using the $51.41 closing price of the ITT Industries common stock on December 30, 2005.

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Share numbers and price per share are adjusted to reflect the Company s February 21, 2006 2:1 stock split.

Name	Shares Acquired on Exercise(#)	Value Realized($)	Number of Securities Underlying Unexercised Options/SARs at FY-End(#)(1) Exercisable	Unexercisable	Value of Unexercised In-the-Money Options/SARs Held at FY-End($)(1) Exercisable	Unexercisable
Steven R. Loranger				449,120		3,655,273
Henry J. Driesse	84,000	3,277,310	210,000	47,560	5,248,700	282,506
Steven F. Gaffney	47,800	1,008,116		33,000		76,220
Vincent A. Maffeo(2)	48,000	1,883,280	170,000	33,180	4,153,460	197,089
George E. Minnich				50,000		107,000
Edward W. Williams	44,000	1,444,640	276,000	50,000	7,093,480	357,000
Robert L. Ayers	100,000	3,422,885	107,000	33,840	2,071,250	201,010

(1) There are no SARs outstanding.

(2) In February 2006, Mr. Maffeo exercised 124,800 stock options and in March 2006, Mr. Maffeo exercised 45,200 stock options.

Long-Term Incentive Plan 2005 Awards

The following table provides information about target awards made to each of the named executive officers during 2005 under the LTIP. The final payment value, if any, of the target awards will be determined based on ITT Industries total shareholder return performance measured against the TSR performance of the other stocks comprising the S&P® Industrials Index. Payment, if any, would be made following the completion of the three-year performance period.

Long-Term Incentive Plans Awards in Last Fiscal Year

Name	Number of Shares, Units or Other Rights (#)	Performance or Other Period Until Maturation or Payout	Estimated Future Payouts Under Non-Stock Price-Based Plans Threshold ($)	Target ($)	Maximum ($)
Steven R. Loranger		1/1/05-12/31/2007	900,000	1,800,000	3,600,000
		1/1/05-12/31/2007	225,000	450,000*	900,000
Henry J. Driesse		1/1/05-12/31/2007	268,700	537,400	1,074,800
Steven F. Gaffney		1/1/05-12/31/2007	193,650	387,300	774,600
Vincent A. Maffeo		1/1/05-12/31/2007	187,450	374,900	749,800
George E. Minnich**		1/1/05-12/31/2007	250,000	500,000	1,000,000
Robert L. Ayers		1/1/05-12/31/2007	191,200	382,400	764,800

Mr. Williams did not receive an award in 2005.

* Represents Mr. Loranger s target Phantom LTIP award for 2005 of $450,000, outside the LTIP. The terms and conditions of the Phantom LTIP award mirror the terms and conditions of awards granted under the LTIP.

** Mr. Minnich also received a 2004 LTIP target award of $250,000 for the 3-year performance period ending December 31, 2006.

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Senior Executive Severance Pay Arrangements

Senior executives other than Mr. Loranger, who are U.S. citizens or who are employed in the United States are covered by the ITT Industries, Inc. Senior Executive Severance Pay Plan. If a covered executive is terminated by ITT Industries, that executive would be eligible to receive severance pay unless the executive is terminated for cause, terminated after the executive s normal retirement date, or in certain divestiture instances where the executive accepts employment or refuses comparable employment. There is no severance in cases where the executive voluntarily leaves the Company. The amount of severance pay depends upon the executive s base pay and years of service. The amount will not exceed 24 months of base pay, or be greater than two times the executive s total annual compensation during the year immediately preceding termination. ITT Industries obligation to continue severance payments stops if the executive does not comply with non-competition provisions of the plan or with ITT Industries Code of Corporate Conduct.

If a covered executive receives or is entitled to receive other compensation from ITT Industries, the amount of that compensation could be used to offset amounts otherwise payable under the plan. During the period in which the executive continues to receive severance payments, the executive will have a limited right to continue to be eligible for participation in certain benefit plans.

Messrs. Driesse, Minnich and Maffeo participate in the plan. Mr. Loranger s entitlement to severance pay and benefits upon termination from ITT Industries is set forth in his employment agreement described on pages 41 to 43.

Mr. Minnich participates in the Senior Executive Severance Pay Plan but will receive entitlement to severance pay and benefits upon termination as set forth in his employment agreement described on pages 43 to 45.

Special Senior Executive Severance Pay Plan

The ITT Industries, Inc. Special Senior Executive Severance Pay Plan provides severance benefits for covered executives whose employment is terminated by the Company other than for cause, or where the covered executive terminates his or her employment for good reason within two years after the occurrence of an *acceleration event* as defined in the **Change of Control Arrangements** described below (including a termination due to death or disability during the two-year period if the covered executive had grounds to resign with good reason) and for covered executives who are terminated in contemplation of an acceleration event that ultimately occurs. The plan provides two levels of benefits for covered executives, based on their position within the Company. If an executive was terminated within two years of an *acceleration event* or in contemplation of an acceleration event that ultimately occurs or the covered executive terminates his or her employment for good reason within two years of an acceleration event, he or she would be entitled to:

- any accrued but unpaid base salary, bonus, unreimbursed expenses and employee benefits, including vacation;

- two or three times the highest annual base salary rate during the three years immediately preceding termination and two or three times the highest annual bonus paid or awarded in the three years preceding an acceleration event or termination;

- continuation of health and life insurance benefits and certain perquisites at the same levels for two or three years;

- a lump sum payment equal to the difference between the total lump sum value of his or her pension benefit under the Company s pension plans, or any successor pension plans (provided such plans are no less favorable to the executive than the Company pension plans), and the total lump sum value of his or her pension benefit under the pension plans after crediting an additional two or three years of age and eligibility and benefit service using the highest annual base salary rate and bonus for purposes of determining final average compensation under the pension plans;

- credit for an additional two or three years of age and two or three years of eligibility service under the retiree health and retiree life insurance benefits;

- a lump sum payment equal to two or three times the highest annual base salary rate during the three years preceding termination or an acceleration event times the highest percentage rate of the Company s contributions to the ITT Industries Investment and Savings Plan for Salaried Employees and the Excess Savings Plan not to exceed 35%; and

- tax gross-up for excise taxes imposed on the covered employee.

Messrs. Driesse and Maffeo are covered at the highest level of benefits. Mr. Gaffney participates at the next level. Mr. Loranger does not participate in this plan. Mr. Loranger s entitlement to severance pay and benefits upon a termination from ITT Industries during the two-year period following a change in control is set forth in his employment agreement described on pages 41 to 43. Mr. Minnich is covered under the highest level of benefits but for purposes of this plan certain severance pay and benefits are as set forth in his employment agreement described on pages 43 to 45.

Change of Control Arrangements

The payment or vesting of awards or benefits under the plans listed below would be accelerated upon the occurrence of a *change of control* of ITT

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Industries. There would be a *change of control* if one of the following *acceleration events* occurred:

1. A report on Schedule 13D would be filed with the SEC disclosing that any person, other than ITT Industries or one of its subsidiaries or any employee benefit plan that is sponsored by ITT Industries or a subsidiary, had become the beneficial owner of 20% or more of ITT Industries outstanding stock;

2. A person other than ITT Industries or one of its subsidiaries or any employee benefit plan that is sponsored by ITT Industries or a subsidiary would purchase ITT Industries shares in connection with a tender or exchange offer, if after consummation of the offer the person purchasing the shares is the beneficial owner of 20% or more of ITT Industries outstanding stock;

3. The shareholders would approve

   (a) any consolidation, business combination or merger of ITT Industries other than a consolidation, business combination or merger in which the shareholders of ITT Industries immediately prior to the merger would hold 50% or more of the combined voting power of ITT Industries or the surviving corporation of the merger and would have the same proportionate ownership of common stock of the surviving corporation that they held in ITT Industries immediately prior to the merger; or

   (b) any sale, lease, exchange or other transfer of all or substantially all of the assets of ITT Industries;

4. A majority of the members of the Board of Directors would change within a 12-month period, unless the election or nomination for election of each of the new Directors by ITT Industries stockholders had been approved by two-thirds of the Directors still in office who had been Directors at the beginning of the 12-month period or whose nomination for election or election was recommended or approved by a majority of Directors who were Directors at the beginning of the 12-month period; or

5. Any person other than ITT Industries or one of its subsidiaries or any employee benefit plan sponsored by ITT Industries or a subsidiary became the beneficial owner of 20% or more of ITT Industries outstanding stock.

The following ITT Industries plans have *change of control* provisions:

- the 2003 Equity Incentive Plan;
- the 1994 Incentive Stock Plan;
- the 1996 Restricted Stock Plan for Non-Employee Directors;
- the 1997 Annual Incentive Plan for Executive Officers;
- the 1997 Annual Incentive Plan;

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- the 1997 Long-Term Incentive Plan;
- the Special Senior Executive Severance Pay Plan;
- the Enhanced Severance Pay Plan;
- the Deferred Compensation Plan;
- the Excess Saving Plan;
- the Excess Pension Plans;
- the Salaried Retirement Plan;
- the Steven R. Loranger Employment Agreement; and
- the Minnich Letter Agreement.

Salaried Retirement Plan

Most of ITT Industries salaried employees who work in the United States participate in the Salaried Retirement Plan. Under the plan, participants have the option, on an annual basis, to elect to be covered under either the Traditional Pension Plan (TPP) or a Pension Equity Plan (PEP) formula for future pension accruals. While the TPP formula pays benefits on a monthly basis after retirement, the PEP formula enables participants to elect to have benefits paid as a single sum payment upon employment termination, regardless of the participant s age. The TPP benefit payable to an employee depends upon the date an employee first became a participant of the Plan.

Under the TPP, a participant first employed prior to January 1, 2000, would receive an annual pension that would be the total of:

- 2% of his or her *average final compensation* (as defined below) for each of the first 25 years of benefit service, plus
- 1^{1}/2% of his or her *average final compensation* for each of the next 15 years of benefit service, reduced by
- 1^{1}/4 % of his or her primary Social Security benefit for each year of benefit service up to a maximum of 40 years, except that no more than one-half of the primary Social Security benefit would be taken into account to calculate the reduction.

In addition, under the TPP, a participant first employed on or after January 1, 2000, would receive an annual pension that would equal:

- 1.5% of his or her *average final compensation* (as defined below) for each year of benefit service up to 40 years, reduced by
- 1^{1}/4 % of his or her primary Social Security benefit for each year of benefit service up to a maximum of 40 years, except that no more than one-half of the primary Social Security benefit would be taken into account to calculate the reduction.

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For a participant first employed prior to January 1, 2005, average final compensation (including salary plus approved bonus payments) is the total of:

the participant s average annual base salary for the five calendar years of the last 120 consecutive calendar months of eligibility service that would result in the highest average annual base salary amount, plus

the participant s average annual pension eligible compensation, not including base salary, for the five calendar years of the participant s last 120 consecutive calendar months of eligibility service that would result in the highest average annual compensation amount.

For a participant first employed on or after January 1, 2005, *average final compensation* is the average of the participant s total pension eligible compensation over the five consecutive calendar years of the participant s final 120 months of employment which would result in the highest average annual compensation amount.

The following table illustrates estimated annual benefits (not including Social Security reductions) that would be payable under the TPP formula to a participant who joined the Company prior to January 1, 2000 and retired at age 65:

Pension Plan Table Pre-2000 Plan

	Years of Service				
Average Final **Compensation**	**10**	**15**	**20**	**25**	**30**
400,000	80,000	120,000	160,000	200,000	230,000
600,000	120,000	180,000	240,000	300,000	345,000
800,000	160,000	240,000	320,000	400,000	460,000
1,000,000	200,000	300,000	400,000	500,000	575,000
1,200,000	240,000	360,000	480,000	600,000	690,000
1,400,000	280,000	420,000	560,000	700,000	805,000
1,600,000	320,000	480,000	640,000	800,000	920,000
1,800,000	360,000	540,000	720,000	900,000	1,035,000
2,000,000	400,000	600,000	800,000	1,000,000	1,150,000
2,500,000	500,000	750,000	1,000,000	1,250,000	1,437,500
3,000,000	600,000	900,000	1,200,000	1,500,000	1,725,000
3,500,000	700,000	1,050,000	1,400,000	1,750,000	2,012,500

(1) Amounts shown under Salary and Bonus opposite the names of the executive officers shown on the Summary Compensation Table comprise their compensation for purposes of determining *average final compensation*.

(2) The years of benefit service through December 31, 2005 are: Mr. Driesse, 24.95 years; Mr. Maffeo, 28.49 years, Mr. Gaffney, 7.54 years, and Mr. Ayers, 7.25 years.

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The following table illustrates estimated annual benefits (not including Social Security reductions) that would be payable under the TPP formula to a participant who first joined the Company on or after January 1, 2000 and who retired at age 65:

Pension Plan Table Post-2000 Plan

	Years of Service				
Average Final Compensation	**10**	**15**	**20**	**25**	**30**
400,000	60,000	90,000	120,000	150,000	180,000
600,000	90,000	135,000	180,000	225,000	270,000
800,000	120,000	180,000	240,000	300,000	360,000
1,000,000	150,000	225,000	300,000	375,000	450,000
1,200,000	180,000	270,000	360,000	450,000	540,000
1,400,000	210,000	315,000	420,000	525,000	630,000
1,600,000	240,000	360,000	480,000	600,000	720,000
1,800,000	270,000	405,000	540,000	675,000	810,000
2,000,000	300,000	450,000	600,000	750,000	900,000
2,500,000	375,000	562,500	750,000	937,500	1,125,000
3,000,000	450,000	675,000	900,000	1,125,000	1,350,000
3,500,000	525,000	787,500	1,050,000	1,312,500	1,575,000

(1) Amounts shown under Salary and Bonus opposite the names of the executive officers shown on the Summary Compensation Table comprise their compensation for purposes of determining *average final compensation*.

(2) The years of benefit service through December 31, 2005 are: Mr. Loranger, 1.51 years and Mr. Minnich 0.50 years.

Participants who were first employed prior to January 1, 2000, retire at or after attainment of age 60 and have completed at least 15 years of eligibility service would receive undiscounted early retirement pensions.

Participants first employed on or after January 1, 2000 but prior to January 1, 2005, who retire on or after attainment of age 62 and who have completed 15 years of eligibility service would receive undiscounted early retirement pensions.

At the present time none of the individuals named in the Summary Compensation Table have elected to accrue benefits under the PEP formula.

Participants become vested in their accrued pension benefits after they complete five years of eligibility service.

Federal law limits the amount of benefits that could be paid and the amount of compensation that could be recognized under tax-qualified retirement plans. As a consequence, ITT Industries has established and maintains non-qualified, unfunded *Excess Pension Plans* to pay retirement benefits that could not be paid from the Salaried Retirement Plan. Benefits under the *Excess Pension Plans* are generally paid directly by ITT Industries. There also is an excess plan trust under which excess benefits accrued by certain of the officers are funded. Generally, participating officers may elect, upon retirement, to receive their excess benefit in a single discounted lump sum payment. In the event of a *change of control*, any excess benefit would be immediately payable and would be paid in a single discounted lump sum.

Mr. Loranger s employment agreement, described on pages 41 to 43, provides for a non-qualified pension arrangement if his employment terminates on or after June 28, 2009 or under certain circumstances prior to that date.

Mr. Williams retired effective January 1, 2006. In connection with his retirement, he was entitled to a total retirement benefit under the terms of the Salaried Pension Program (including the Salaried Retirement Plan and the Excess Pension Plan) of $250,097 per year. Of this amount, based upon his election under the Excess Pension Plan for an immediate lump sum payment in accordance with the terms of the Plan, he was entitled to receive $2,453,775 as a lump sum following his retirement in lieu of that portion ($181,851) of his annual retirement benefit payable under the excess pension plan. A portion of this amount was paid in January, 2006 with the balance payable in July, 2006. The remainder of Mr. Williams total retirement benefit under the Salaried Pension Program, after reduction to reflect a survivorship option for his spouse, will be paid in monthly installments.

In addition to the benefit under the Salaried Pension Program, Mr. Williams is entitled a special pension award pursuant to the agreement entered into on February 5, 2004 between the Company and Mr. Williams. The agreement provided for a special pension award based on his bonus for 2005 performance which was not considered in the determination of his benefit under the Company plans. Under this arrangement, Mr. Williams will be entitled to an annual benefit of $26,719, payable in monthly installments after reduction for a survivorship option in favor of his spouse.

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Annex A
ARTICLES OF RESTATEMENT

ITT Industries, Inc., a corporation organized and existing under the laws of the State of Indiana (the Corporation), hereby certifies as follows:

ITT Industries, Inc. was originally incorporated under the name ITT Indiana, Inc. pursuant to its original Articles of Incorporation filed with the Secretary of State for the State of Indiana on September 5, 1995. Effective December 20, 1995, ITT Corporation, a Delaware corporation, was merged with and into the Corporation, and the name of the Corporation was changed to ITT Industries, Inc. The Restated Articles of Incorporation set forth below only restate and integrate the provisions of the Corporation s Articles of Incorporation as heretofore amended or supplemented, and there is no discrepancy between those provisions and the provisions of these Restated Articles of Incorporation. The text of the Restated Articles of Incorporation as amended or supplemented heretofore is hereby restated to read as herein set forth in full:

RESTATED ARTICLES OF INCORPORATION
of
ITT CORPORATION
(AS PROPOSED TO BE AMENDED)

ARTICLE FIRST

The name of the corporation is ITT Corporation, (the Corporation).

ARTICLE SECOND

The address of the registered office of the Corporation in the State of Indiana is One North Capitol Avenue, Suite 1180, Indianapolis, Indiana 46204. The name of the registered agent of the Corporation at such address is The Corporation Trust Company.

ARTICLE THIRD

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Indiana Business Corporation Law.

ARTICLE FOURTH

(a) The aggregate number of shares of stock that the Corporation shall have authority to issue is 300,000,000 shares, consisting of 250,000,000 shares designated Common Stock and 50,000,000 shares designated Preferred Stock . The shares of Common Stock shall have a par value of $1 per share, and the shares of Preferred Stock shall not have any par or stated value, except that, solely for the purpose of any statute or regulation imposing any fee or tax

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based upon the capitalization of the Corporation, the shares of Preferred Stock shall be deemed to have a par value of $.01 per share.

(b) The Board of Directors of the Corporation shall have the full authority permitted by law, at any time and from time to time, to divide the authorized and unissued shares of Preferred Stock into classes or series, or both, and to determine the following provisions, designations, powers, preferences and relative, participating, optional and other special rights and the qualifications, limitations or restrictions thereof for shares of any such class or series of Preferred Stock:

(1) the designation of such class or series, the number of shares to constitute such class or series and the stated or liquidation value thereof;

(2) whether the shares of such class or series shall have voting rights, in addition to any voting rights provided by law, and, if so, the terms of such voting rights;

(3) the dividends, if any, payable on such class or series, whether any such dividends shall be cumulative, and, if so, from what dates, the conditions and dates upon which such dividends shall be payable, the preference or relation which such dividends shall bear to the dividends payable on any shares of stock of any other class or any other series of the same class;

(4) whether the shares of such class or series shall be subject to redemption at the election of the Corporation and/or the holders of such class or series and, if so, the times, price and other conditions of such redemption, including securities or other property payable upon any such redemption, if any;

(5) the amount or amounts, if any, payable upon shares of such class or series upon, and the rights of the holders of such class or series in, the voluntary or involuntary liquidation, dissolution or winding up, or any distribution of the assets, of the Corporation; *provided* that in no event shall the amount or amounts, if any, exceed $100 per share plus accrued dividends in the case of involuntary liquidation, dissolution or winding up;

(6) whether the shares of such class or series shall be subject to the operation of a retirement or sinking fund and, if so, the extent to and manner in which any such retirement or sinking fund shall be applied to the purchase or redemption of the shares of such class or series for retirement or other corporate purposes and the terms and provisions relative to the operation thereof;

(7) whether the shares of such class or series shall be convertible into, or exchangeable for, shares of stock of any other class or any other series of the same class or any securities, whether or not issued by the Corporation, and, if so, the price or prices or the rate or rates of

conversion or exchange and the method, if any, of adjusting the same, and any other terms and conditions of conversion or exchange;

(8) the limitations and restrictions, if any, to be effective while any shares of such class or series are outstanding upon the payment of dividends or the making of other distributions on, and upon the purchase, redemption or other acquisition by the Corporation of, the Common Stock or shares of stock of any other class or any other series of the same class;

(9) the conditions or restrictions, if any, upon the creation of indebtedness of the Corporation or upon the issuance of any additional shares of stock, including additional shares of such class or series or of any other series of the same class or of any other class;

(10) the ranking (be it *pari passu,* junior or senior) of each class or series vis-a-vis any other class or series of any class of Preferred Stock as to the payment of dividends, the distribution of assets and all other matters; and

(11) any other powers, preferences and relative, participating, optional and other special rights and any qualifications, limitations or restrictions thereof, insofar as they are not inconsistent with the provisions of these Articles of Incorporation, to the full extent permitted in accordance with the laws of the State of Indiana.

(c) Such divisions and determinations may be accomplished by an amendment to this ARTICLE FOURTH, which amendment may be made solely by action of the Board of Directors, which shall have the full authority permitted by law to make such divisions and determinations.

(d) The powers, preferences and relative, participating, optional and other special rights of each class or series of Preferred Stock and the qualifications, limitations or restrictions thereof, if any, may differ from those of any and all other classes or series at any time outstanding; *provided* that each series of a class is given a distinguishing designation and that all shares of a series have powers, preferences and relative, participating, optional and other special rights and the qualifications, limitations or restrictions thereof identical with those of other shares of the same series and, except to the extent otherwise provided in the description of the series, with those other series of the same class.

(e) Holders of shares of Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available for the payment thereof, dividends at the rates fixed by the Board of Directors for the respective series before any dividends shall be declared and paid, or set aside for payment, on shares of Common Stock with respect to the same dividend period. Nothing in this ARTICLE FOURTH shall limit the power of the Board of Directors to create a series of Preferred Stock with dividends the rate of which is calculated by reference to, and the payment of which is concurrent with, dividends on shares of Common Stock.

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(f) In the event of the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, holders of shares of each series of Preferred Stock will be entitled to receive the amount fixed for such series upon any such event (not in excess of $100 per share in the case of involuntary liquidation, dissolution or winding up) plus, in the case of any series on which dividends will have been determined by the Board of Directors to be cumulative, an amount equal to all dividends accumulated and unpaid thereon to the date of final distribution whether or not earned or declared before any distribution shall be paid, or set aside for payment, to holders of Common Stock. If the assets of the Corporation are not sufficient to pay such amounts in full, holders of all shares of Preferred Stock will participate in the distribution of assets ratably in proportion to the full amounts to which they are entitled or in such order or priority, if any, as will have been fixed in the resolution or resolutions providing for the issue of the series of Preferred Stock. Neither the merger nor consolidation of the Corporation into or with any other corporation, nor a sale, transfer or lease of all or part of its assets, will be deemed a liquidation, dissolution or winding up of the Corporation within the meaning of this paragraph except to the extent specifically provided for herein. Nothing in this ARTICLE FOURTH shall limit the power of the Board of Directors to create a series of Preferred Stock for which the amount to be distributed upon any liquidation, dissolution or winding up of the Corporation is calculated by reference to, and the payment of which is concurrent with, the amount to be distributed to the holders of shares of Common Stock.

(g) The Corporation, at the option of the Board of Directors, may redeem all or part of the shares of any series of Preferred Stock on the terms and conditions fixed for such series.

(h) Except as otherwise required by law, as otherwise provided herein or as otherwise determined by the Board of Directors as to the shares of any series of Preferred Stock prior to the issuance of any such shares, the holders of Preferred Stock shall have no voting rights and shall not be entitled to any notice of meetings of shareholders.

(i) Each holder of shares of Common Stock shall be entitled to one vote for each share of Common Stock held of record on all matters on which the holders of shares of Common Stock are entitled to vote. Subject to the provisions of applicable law and any certificate of designation providing for the issuance of any series of Preferred Stock, the holders of outstanding shares of Common Stock shall have and possess the exclusive right to notice of shareholders meetings and the exclusive power to vote. No shareholder will be permitted to cumulate votes at any election of directors.

(j) Subject to all the rights of the Preferred Stock, the holders of the Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available for the payment thereof, dividends payable in cash, stock or otherwise. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after the holders of the Preferred Stock of each series shall have been paid in full in cash the amounts to which they respectively shall be entitled or a sum sufficient for such payment in full shall have been set aside, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of the Preferred Stock.

SERIES A PARTICIPATING CUMULATIVE PREFERRED STOCK

A description of such Series A Participating Cumulative Preferred Stock with the designations, voting powers, preferences and relative, participating, optional and other special rights and qualifications, limitations or restrictions relating thereto is as follows:

SECTION 1. *Designation and Number of Shares.* The shares of such series shall be designated as Series A Participating Cumulative Preferred Stock (the Series A Preferred Stock), without par value. The number of shares initially constituting the Series A Preferred Stock shall be 300,000; *provided, however*, that, if more than a total of 300,000 shares of Series A Preferred Stock shall be issuable upon the exercise of Rights (the Rights) issued pursuant to that Rights Agreement between the Corporation and The Bank of New York, a New York banking corporation, as Rights Agent (the Rights Agreement), the Board of Directors of the Corporation, pursuant to Section 23-1-25-2(d) of the Business Corporation Law of the State of Indiana, shall direct by resolution or resolutions that articles of amendment be properly executed and delivered to the Secretary of State for the State of Indiana for filing in accordance with the provisions of Section 23-1-18-1 and Section 23-1-38-6 thereof, providing for the total number of shares of Series A Preferred Stock authorized to be issued to be increased (to the extent that the Articles of Incorporation then permit) to the largest number of whole shares (rounded up to the nearest whole number) issuable upon exercise of such Rights.

SECTION 2. *Dividends or Distributions.* (a) Subject to the prior and superior rights of the holders of shares of any other series of Preferred Stock or other class of capital stock of the Corporation ranking prior and superior to the shares of Series A Preferred Stock with respect to dividends, the holders of shares of the Series A Preferred Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of the assets of the Corporation legally available therefor, (1) quarterly dividends payable in cash on the last day of each fiscal quarter in each year, or such other dates as the Board of Directors of the Corporation shall approve (each such date being referred to herein as a Quarterly Dividend Payment Date), commencing on the first Quarterly Dividend Payment

Date after the first issuance of a share or a fraction of a share of Series A Preferred Stock, in the amount of $.01 per whole share (rounded to the nearest cent) less the amount of all cash dividends declared on the Series A Preferred Stock pursuant to the following clause (2) since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series A Preferred Stock (the total of which shall not, in any event, be less than zero) and (2) dividends payable in cash on the payment date for each cash dividend declared on the Common Stock in an amount per whole share (rounded to the nearest cent) equal to the Formula Number (as hereinafter defined) then in effect times the cash dividends then to be paid on each share of Common Stock. In addition, if the Corporation shall pay any dividend or make any distribution on the Common Stock payable in assets, securities or other forms of noncash consideration (other than dividends or distributions solely in shares of Common Stock), then, in each such case, the Corporation shall simultaneously pay or make on each outstanding whole share of Series A Preferred Stock a dividend or distribution in like kind equal to the Formula Number then in effect times such dividend or distribution on each share of the Common Stock. As used herein, the Formula Number shall be 1,000; *provided, however*, that, if at any time after the Distribution Record Date (as defined in that Notice of Special Meeting and Proxy Statement, dated August 30, 1995, filed with the Securities and Exchange Commission by ITT Corporation), the Corporation shall (i) declare or pay any dividend on the Common Stock payable in shares of Common Stock or make any distribution on the Common Stock in shares of Common Stock, (ii) subdivide (by a stock split or otherwise) the outstanding shares of Common Stock into a larger number of shares of Common Stock or (iii) combine (by a reverse stock split or otherwise) the outstanding shares of Common Stock into a smaller number of shares of Common Stock, then in each such event the Formula Number shall be adjusted to a number determined by multiplying the Formula Number in effect immediately prior to such event by a fraction, the numerator of which is the number of shares of Common Stock that are outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that are outstanding immediately prior to such event (and rounding the result to the nearest whole number); and *provided further*, that, if at any time after the Distribution Record Date, the Corporation shall issue any shares of its capital stock in a merger, reclassification, or change of the outstanding shares of Common Stock, then in each such event the Formula Number shall be appropriately adjusted to reflect such merger, reclassification or change so that each share of Preferred Stock continues to be the economic equivalent of a Formula Number of shares of Common Stock prior to such merger, reclassification or change.

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(b) The Corporation shall declare a dividend or distribution on the Series A Preferred Stock as provided in Section 2(a) immediately prior to or at the same time it declares a dividend or distribution on the Common Stock (other than a dividend or distribution solely in shares of Common Stock); *provided, however*, that, in the event no dividend or distribution (other than a dividend or distribution in shares of Common Stock) shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $.01 per share on the Series A Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date. The Board of Directors may fix a record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a dividend or distribution declared thereon, which record date shall be the same as the record date for any corresponding dividend or distribution on the Common Stock.

(c) Dividends shall begin to accrue and be cumulative on outstanding shares of Series A Preferred Stock from and after the Quarterly Dividend Payment Date next preceding the date of original issue of such shares of Series A Preferred Stock; *provided, however*, that dividends on such shares which are originally issued after the record date for the determination of holders of shares of Series A Preferred Stock entitled to receive a quarterly dividend and on or prior to the next succeeding Quarterly Dividend Payment Date shall begin to accrue and be cumulative from and after such Quarterly Dividend Payment Date. Notwithstanding the foregoing, dividends on shares of Series A Preferred Stock which are originally issued prior to the record date for the determination of holders of shares or Series A Preferred Stock entitled to receive a quarterly dividend on the first Quarterly Dividend Payment Date shall be calculated as if cumulative from and after the last day of the fiscal quarter next preceding the date of original issuance of such shares. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series A Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding.

(d) So long as any shares of the Series A Preferred Stock are outstanding, no dividends or other distributions shall be declared, paid or distributed, or set aside for payment or distribution, on the Common Stock unless, in each case, the dividend required by this Section 2 to be declared on the Series A Preferred Stock shall have been declared.

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(e) The holders of the shares of Series A Preferred Stock shall not be entitled to receive any dividends or other distributions except as provided herein.

SECTION 3. *Voting Rights.* The holders of shares of Series A Preferred Stock shall have the following voting rights:

(a) Each holder of Series A Preferred Stock shall be entitled to a number of votes equal to the Formula Number then in effect, for each share of Series A Preferred Stock held of record on each matter on which holders of the Common Stock or shareholders generally are entitled to vote, multiplied by the maximum number of votes per share which any holder of the Common Stock or shareholders generally then have with respect to such matter (assuming any holding period or other requirement to vote a greater number of shares is satisfied).

(b) Except as otherwise provided herein or by applicable law, the holders of shares of Series A Preferred Stock and the holders of shares of Common Stock shall vote together as one class for the election of directors of the Corporation and on all other matters submitted to a vote of shareholders of the Corporation.

(c) If, at the time of any annual meeting of shareholders for the election of directors, the equivalent of six quarterly dividends (whether or not consecutive) payable on any share or shares of Series A Preferred Stock are in default, the number of directors constituting the Board of Directors of the Corporation shall be increased by two. In addition to voting together with the holders of Common Stock for the election of other directors of the Corporation, the holders of record of the Series A Preferred Stock, voting separately as a class to the exclusion of the holders of Common Stock, shall be entitled at said meeting of shareholders (and at each subsequent annual meeting of shareholders), unless all dividends in arrears have been paid or declared and set apart for payment prior thereto, to vote for the election of two directors of the Corporation, the holders of any Series A Preferred Stock being entitled to cast a number of votes per share of Series A Preferred Stock equal to the Formula Number. Until the default in payments of all dividends which permitted the election of said directors shall cease to exist, any director who shall have been so elected pursuant to the next preceding sentence may be removed at any time, either with or without cause, only by the affirmative vote of the holders of the shares of Series A Preferred Stock at the time entitled to cast a majority of the votes entitled to be cast for the election of any such director at a special meeting of such holders called for that purpose, and any vacancy thereby created may be filled by the vote of such holders. If and

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when such default shall cease to exist, the holders of the Series A Preferred Stock shall be divested of the foregoing special voting rights, subject to revesting in the event of each and every subsequent like default in payments of dividends. Upon the termination of the foregoing special voting rights, the terms of office of all persons who may have been elected directors pursuant to said special voting rights shall forthwith terminate, and the number of directors constituting the Board of Directors shall be reduced by two. The voting rights granted by this Section 3(c) shall be in addition to any other voting rights granted to the holders of the Series A Preferred Stock in this Section 3.

(d) Except as provided herein, in Section 11 or by applicable law, holders of Series A Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for authorizing or taking any corporate action.

SECTION 4. *Certain Restrictions.* (a) Whenever quarterly dividends or other dividends or distributions payable on the Series A Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series A Preferred Stock outstanding shall have been paid in full, the Corporation shall not

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except dividends paid ratably on the Series A Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock; *provided* that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series A Preferred Stock, or any shares of stock ranking on a parity with the Series A Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph (a) of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

SECTION 5. *Liquidation Rights.* Upon the liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series A Preferred Stock unless, prior thereto, the holders of shares of Series A Preferred Stock shall have received an amount, equal to the accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, plus an amount equal to the greater of (x) $.01 per whole share or (y) an aggregate amount per share equal to the Formula Number then in effect times the aggregate amount to be distributed per share to holders of Common Stock or (2) to the holders of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series A Preferred Stock, except distributions made ratably on the Series A Preferred Stock and all other such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up; *provided* that in no event shall the amount or amounts, if any, exceed $100 per share plus accrued dividends in the case of involuntary liquidation, dissolution or winding up of the Corporation.

SECTION 6. *Consolidation, Merger, etc.* In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash or any other property, then in any such case the then outstanding shares of Series A Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share equal to the Formula Number then in effect times the aggregate amount of stock, securities, cash or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is exchanged or changed. In the event both this Section 6 and Section 2 appear to apply to a transaction, this Section 6 will control.

SECTION 7. *No Redemption; No Sinking Fund.* (a) The shares of Series A Preferred Stock shall not be subject to redemption by the Corporation or at the option of any holder of Series A Preferred Stock; *provided, however*, that the Corporation may purchase or otherwise acquire outstanding shares of Series A Preferred Stock in the open market or by offer to any holder or holders of shares of Series A Preferred Stock.

(b) The shares of Series A Preferred Stock shall not be subject to or entitled to the operation of a retirement or sinking fund.

SECTION 8. *Ranking.* The Series A Preferred Stock shall rank junior to all other series of Preferred Stock of the Corporation, unless the Board of Directors shall specifically determine otherwise in fixing the powers, preferences and relative, participating, optional and other special rights of the shares of such series and the qualifications, limitations or restrictions thereof.

SECTION 9. *Fractional Shares.* The Series A Preferred Stock shall be issuable upon exercise of the Rights issued pursuant to the Rights Agreement in whole shares or in any fraction of a share that is one one-thousandths (1/1,000ths) of a share or any integral multiple of such fraction which shall entitle the holder, in proportion to such holder s fractional shares, to receive dividends, exercise voting rights, participate in distributions and to have the benefit of all other rights of holders of Series A Preferred Stock. In lieu of fractional shares, the Corporation, prior to the first issuance of a share or a fraction of a share of Series A Preferred Stock, may elect (1) to make a cash payment as provided in the Rights Agreement for fractions of a share other than one one-thousandths (1/1,000ths) of a share or any integral multiple thereof or (2) to issue depository receipts evidencing such authorized fraction of a share of Series A Preferred Stock pursuant to an appropriate agreement between the Corporation and a depository selected by the Corporation; *provided* that such agreement shall provide that the holders of such depository receipts shall have all the rights, privileges and preferences to which they are entitled as holders of the Series A Preferred Stock.

SECTION 10. *Reacquired Shares.* Any shares of Series A Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancelation become authorized but unissued shares of Preferred Stock, without designation as to series until such shares are once more designated as part of a particular series by the Board of Directors pursuant to the provisions of ARTICLE FOURTH of the Articles of Incorporation.

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SECTION 11. *Amendment.* None of the powers, preferences and relative, participating, optional and other special rights of the Series A Preferred Stock as provided herein or in the Articles of Incorporation shall be amended in any manner which would alter or change the powers, preferences, rights or privileges of the holders of Series A Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least $66^{2}/3\%$ of the outstanding shares of Series A Preferred Stock, voting as a separate class, *provided, however*, that no such amendment approved by the holders of at least $66^{2}/3$ % of the outstanding shares of Series A Preferred Stock shall be deemed to apply to the powers, preferences, rights or privileges of any holder of shares of Series A Preferred Stock originally issued upon exercise of a Right after the time of such approval without the approval of such holder.

ARTICLE FIFTH

(a) Special meetings of shareholders of the Corporation may be called only by the Chairman of the Board of Directors or by a majority vote of the entire Board of Directors.

(b) Shareholders of the Corporation shall not have any preemptive rights to subscribe for additional issues of stock of the Corporation except as may be agreed from time to time by the Corporation and any such shareholder.

(c) Notwithstanding the foregoing, whenever the holders of any one or more classes or series of Preferred Stock issued by the Corporation, if any, shall have the right, voting separately by class or series, to elect directors at an annual or special meeting of shareholders, an election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the applicable resolution or resolutions of the Board of Directors adopted pursuant to ARTICLE FOURTH of these Articles of Incorporation.

ARTICLE SIXTH

To the fullest extent permitted by applicable law as then in effect, no director or officer shall be personally liable to the Corporation or any of its shareholders for damages for breach of fiduciary duty as a director or officer, except for liability (a) for breach of duty if such breach constitutes wilful misconduct or recklessness or (b) for the payment of distributions to shareholders in violation of Section 23-1-28-3 of the Indiana Business Corporation Law. Any repeal or modification of this ARTICLE SIXTH by the shareholders of the Corporation shall not adversely affect any right or protection of a director or officer of the Corporation existing at the time of such repeal or modification with respect to acts or omissions occurring prior to such repeal or modification.

ARTICLE SEVENTH

The holders of the capital stock of the Corporation shall not be personally liable for the payment of the Corporation s debts and the private property of the holders of the capital stock of the Corporation shall not be subject to the payment of debts of the Corporation to any extent whatsoever.

ARTICLE EIGHTH

Subject to any express provision of the laws of the State of Indiana, these Articles of Incorporation or the By-laws of the Corporation, the By-laws of the Corporation may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by the Board of Directors at any regular or special meeting of the Board of Directors, if such supplement, amendment, repeal or adoption is approved by a majority of the entire Board of Directors. Subject to any express provision of the laws of the State of Indiana, these Articles of Incorporation or the By-laws of the Corporation, the By-laws of the Corporation may from time to time be supplemented, amended or repealed, or new By-laws may be adopted, by the shareholders at any regular or special meeting of the shareholders at which a quorum is present, if such supplement, amendment, repeal or adoption is approved by the affirmative vote of the holders of at least a majority of the voting power of all outstanding shares of stock of the Corporation entitled to vote generally in an election of directors.

ARTICLE NINTH

The Corporation reserves the right to supplement, amend or repeal any provision contained in these Articles of Incorporation, in the manner now or hereafter prescribed by the laws of the State of Indiana, and all rights conferred on shareholders herein are granted subject to this reservation.

ARTICLE TENTH

The name and address of the incorporator signing these Articles of Restatement of Articles of Incorporation is:

Name	**Address**
George W. Bilicic, Jr.	825 Eighth Avenue New York, New York 10019

These Articles of Restatement of Articles of Incorporation were duly adopted by the Board of Directors of the Corporation in accordance with the provisions of Section 23-1-38-7 of the Indiana Business Corporation Law.

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IN WITNESS WHEREOF, I have executed these Articles of Restatement of the Restated Articles of Incorporation this day of , 200 .

/s/

Name:
Title:

ATTEST:
/s/

Name:
Title:

Appendix I
ITT Industries, Inc.
Corporate Governance Principles

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FFO attributable to OP Unitholders	8,437	9,743	9,901	8,678	14,881
FFO attributable to OP Unitholders basic and diluted	140,623	116,086	104,806	86,642	109,183
Adjustments:					
Impairment losses on non-depreciable real estate(3)				3,992	300
Debt modification costs				1,136	
Acquisition costs(3)	3,578	1,975	1,902	1,228	
FFO, as adjusted, attributable to OP Unitholders, basic and diluted(2):	$ 144,201	$ 118,061	$ 106,708	$ 92,998	$ 109,483
FFO per common share and unit basic and diluted	$ 0.44	$ 0.41	$ 0.39	$ 0.36	$ 0.48
FFO as adjusted, per common share and unit basic and diluted(2)(4):	$ 0.45	$ 0.42	$ 0.40	$ 0.39	$ 0.49
FFO weighted average common shares and units outstanding:					
Common shares	298,769	254,831	242,591	212,412	192,900
Participating securities	2,462	1,896	1,601	1,689	1,535
Units	19,079	23,358	25,310	26,351	30,660
	320,310	280,085	269,502	240,452	225,095

FFO weighted average common shares, participating securities and units outstanding basic:					
Dilutive common stock equivalents	893	623	449	357	189
FFO weighted average common shares and units outstanding diluted:	321,203	280,708	269,951	240,809	225,284

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(1) Includes gain on dispositions of real estate interests.

(2) We believe that net income attributable to unitholders, as defined by GAAP, is the most appropriate earnings measure. However, we consider funds from operations (FFO), as defined by the National Association of Real Estate Investment Trusts (NAREIT), to be a useful supplemental non-GAAP measure of DCT Industrial s operating performance. NAREIT developed FFO as a relative measure of performance of an equity REIT in order to recognize that the value of income-producing real estate historically has not depreciated on the basis determined under GAAP. FFO is generally defined as net income attributable to unitholders, calculated in accordance with GAAP, plus real estate-related depreciation and amortization, less gains from dispositions of operating real estate held for investment purposes, plus impairment losses on depreciable real estate and impairments of in substance real estate investments in investees that are driven by measureable decreases in the fair value of the depreciable real estate held by the unconsolidated joint ventures and adjustments to derive our pro rata share of FFO of unconsolidated joint ventures. We exclude gains and losses on business combinations and include the gains or losses from dispositions of properties which were acquired or developed with the intention to sell or contribute to an investment fund in our definition of FFO. Although the NAREIT definition of FFO predates the guidance for accounting for gains and losses on business combinations, we believe that excluding such gains and losses is consistent with the key objective of FFO as a performance measure. We also present FFO excluding acquisition costs, debt modification costs and impairment losses on properties which are not depreciable. We believe that FFO excluding acquisition costs, debt modification costs and impairment losses on non-depreciable real estate is useful supplemental information regarding our operating performance as it provides a more meaningful and consistent comparison of our operating performance and allows investors to more easily compare our operating results. Readers should note that FFO captures neither the changes in the value of our properties that result from use or market conditions, nor the level of capital expenditures and leasing commissions necessary to maintain the operating performance of our properties, all of which have real economic effect and could materially impact our results from operations. NAREIT s definition of FFO is subject to interpretation, and modifications to the NAREIT definition of FFO are common. Accordingly, our FFO may not be comparable to other REITs FFO and FFO should be considered only as a supplement to net income as a measure of our performance.

(3) Excluding amounts attributable to noncontrolling interests.

(4) Under NAREIT s definition of FFO, impairment write-downs of depreciable real estate should be excluded in calculating NAREIT FFO. In addition, impairments of in substance real estate investments in investees that are driven by measureable decreases in the fair value of the depreciable real estate held by the unconsolidated joint ventures should be excluded in determining NAREIT FFO.

(5) Property net operating income, or property NOI, is defined as rental revenues, including reimbursements, less rental expenses and real estate taxes, which excludes depreciation, amortization, impairment, casualty gains, general and administrative expenses, loss on business combinations and interest expense. We consider property NOI to be an appropriate supplemental performance measure because property NOI reflects the operating performance of our properties and excludes certain items that are not considered to be controllable in connection with the management of the property such as depreciation, amortization, impairment, general and administrative expenses, interest income and interest expense. However, property NOI should not be viewed as an alternative measure of our financial performance since it excludes expenses which could materially impact our results of operations. Further, our property NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating property NOI. Therefore, we believe net income, as defined by GAAP, to be the most appropriate measure to evaluate our overall financial performance.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

DCTOP is an entity through which DCT, a fully-integrated and self-managed REIT, and our sole general partner, conducts all of its operations and owns all of its assets. We are engaged in the business of owning, operating, acquiring and developing high-quality bulk distribution and light industrial properties in high volume distribution markets in the United States (U.S.). As of December 31, 2013 DCT owned an approximate 94.8% ownership interest in DCTOP.

Our primary business objectives are to maximize long-term growth in Funds From Operations, or FFO, as defined in Selected Consolidated Financial Data, net asset value of our portfolio and total shareholder returns. In our pursuit of these long-term objectives, we seek to:

- maximize cash flows from existing properties;
- deploy capital into high quality acquisitions and development opportunities which meet our asset, location and financial criteria; and
- recycle capital by selling assets that no longer fit our investment criteria and reinvesting the proceeds into higher growth opportunities.

Outlook

We seek to maximize long-term earnings growth and value within the context of overall economic conditions, primarily through increasing occupancy, rents and operating income at existing properties and acquiring and developing high-quality properties with attractive operating income and value growth prospects. Fundamentals for industrial real estate continue to improve in response to general improvement in the economy as well as trends that particularly favor industrial assets, including the growth of e-commerce and United States based manufacturing. We expect moderate economic growth to continue throughout 2014, which should result in continued positive demand for warehouse space as companies expand and upgrade their distribution and production platforms.

In response to positive net absorption and lower market vacancy levels, rental rates are increasing in most of our markets, although they generally remain below peak levels. Rental concessions, such as free rent, have also declined in all markets. Consistent with recent experience and based on current market conditions, we expect average net effective rental rates on new leases signed in 2014 to be higher than the rates on expiring leases. As positive net absorption of warehouse space continues, we expect the rental rate environment to continue to improve.

New development has begun to increase in certain markets where fundamentals have improved, however construction is below current levels of net absorption in most markets and well below peak levels. We expect that the operating environment will continue to be favorable for landlords with meaningful improvement of rental and occupancy rates.

We expect same store net operating income to be higher in 2014 than it was in 2013, primarily as a result of higher occupancy in 2014 and the impact of increasing rental rates on leases signed in 2014 compared to expiring leases.

In terms of capital investment, we will continue to pursue the acquisition of well-located distribution facilities at prices where we can apply our leasing experience and market knowledge to generate attractive returns. Going forward, we will pursue the acquisition of buildings and land and consider selective development of new buildings in markets where we perceive demand and market rental rates will provide attractive financial returns.

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We anticipate having sufficient liquidity to fund our operating expenses, including costs to maintain our properties and distributions, though we may finance investments, including acquisitions and developments, with the issuance of new common shares, proceeds from asset sales or through additional borrowings. Please see Liquidity and Capital Resources for additional discussion.

Inflation

Although the U.S. economy has recently experienced a slight decrease in inflation rates, and a wide variety of industries and sectors are affected differently by changing commodity prices, inflation has not had a significant impact on us in our markets. Most of our leases require the customers to pay their share of operating expenses, including common area maintenance, real estate taxes and insurance, thereby reducing our exposure to increases in costs and operating expenses resulting from inflation. In addition, most of our leases expire within five years which enables us to replace existing leases with new leases at then-existing market rates.

Summary of Significant Transactions During 2013

Significant transactions for the year ended December 31, 2013

Acquisitions

During the year ended December 31, 2013, we acquired 38 buildings totaling approximately 7.1 million square feet. These properties were acquired for a total purchase price of $359.5 million, excluding our existing ownership of 3.6% in the seven properties previously held by TRT-DCT Venture I (see Notes to the Consolidated Financial Statements, Note 4 Investment in and Advances to Unconsolidated Joint Ventures for further detail).

During the year ended December 31, 2013, we acquired five land parcels for future development which total approximately 128.6 acres located in the Southern California, Seattle, Miami, and Houston markets for a total purchase price of $40.5 million.

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Development Activities

During 2013, we continued to expand our development activities. The table below represents a summary of our consolidated development activity as of December 31, 2013:

Project	Market	Acres	Number of Buildings	Square Feet (in thousands)	Percent Owned	Cumulative Costs at 12/31/2013 (in thousands)	Projected Investment (in thousands)	Completion Date[1]	Percent Leased
Development Activities									
Projects in Lease Up									
DCT Airtex Industrial Center	Houston	13	1	267	100%	$ 12,161	$ 14,983	Q4-2013	100%
DCT 55	Chicago	33	1	604	100%	26,218	28,318	Q4-2012	66%
Total		**46**	**2**	**871**	**100%**	**$ 38,379**	**$ 43,301**		**77%**
Under Construction									
DCT Beltway Tanner Business Center	Houston	11	1	133	100%	$ 10,201	$ 15,153	Q1-2014	0%
8th & Vineyard B	So. California	4	1	99	91%	5,243	6,197	Q1-2014	0%
DCT Summer South Distribution Center	Seattle	9	1	188	100%	9,194	13,060	Q1-2014	0%
DCT White River Corporate Center Phase I	Seattle	30	1	649	100%	23,051	42,433	Q2-2014	0%
Slover Logistics Center II	So. California	28	1	610	100%	24,241	37,496	Q1-2014	100%
DCT Auburn 44	Seattle	3	1	49	100%	3,341	4,547	Q1-2014	100%
DCT Rialto Logistics Center	So. California	42	1	928	100%	21,480	59,523	Q3-2014	0%
Total		**127**	**7**	**2,656**	**100%**	**$ 96,751**	**$ 178,409**		**25%**
Build-to-Suit for Sale									
8th & Vineyard A	So. California	6	1	130	91%	$ 7,773	$ 8,703	Q1-2014	N/A
Total		**6**	**1**	**130**	**91%**	**$ 7,773**	**$ 8,703**		
Total Development Activities		**179**	**10**	**3,657**	**99%**	**$ 142,903**	**$ 230,413**		**38%**

(1) The completion date represents the date of building shell completion or estimated date of shell completion.

Construction was completed during the second quarter of 2013 on the Dulles Summit build-to-suit project. We recognized development profits, net of tax of approximately $0.3 million for the year ended December 31, 2013 related to the development of the Dulles Summit build-to-suit project. As of December 31, 2013, we had one build-to-suit for sale project, 8th and Vineyard A, under contract. Due to the terms of the contract, timing of payments and the sale recognition criteria of GAAP, no profit was recognized in 2013. The construction and sale were completed in January 2014, at which time the development profit was recognized.

Dispositions

During the year ended December 31, 2013, we sold 51 operating properties, totaling approximately 6.8 million square feet, to third-parties for combined gross proceeds of approximately $265.8 million. This included the disposition of our entire portfolio of Mexico assets consisting of 15 buildings totaling 1.7 million square feet, for gross proceeds of approximately $82.7 million.

We recognized gains of approximately $33.6 million on the disposition of 36 operating properties and recognized an impairment loss of approximately $13.3 million on the disposition of a portfolio in Dallas.

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Significant Activity with Joint Ventures

During May 2013, we purchased the remaining 96.4% interest in seven properties from TRT-DCT JV I for additional consideration of $82.8 million. Additionally, we sold one of the properties during 2013 and the remaining six properties were consolidated as of December 31, 2013.

Debt Activity

During February 2013, we entered into an amendment with our syndicated bank group whereby we extended and increased our existing $175.0 million senior unsecured term loan to $225.0 million for a period of five years, extended our existing $300.0 million senior unsecured line of credit for a period of four years and received a commitment for an additional $175.0 million senior unsecured term loan with a term of two years. We closed on the additional $175.0 million in March 2013, which was used to refinance a scheduled June 2013 maturity of $175.0 million of other senior unsecured debt.

During October 2013, we issued $275.0 million aggregate principal amount of 4.50% senior notes due 2023 at 99.038% of face value in a private placement for net proceeds of approximately $269.6 million after offering costs. We primarily used the net proceeds to repay a $15.9 million mortgage note that was scheduled to mature in October 2013, a $50.0 million senior unsecured note that was scheduled to mature in January of 2014 and our $175.0 million senior unsecured term loan that was scheduled to mature in February 2015, which were pre-payable without prepayment penalties.

Equity activity

On May 29, 2013, DCT registered a third continuous equity offering program, to replace its continuous equity offering program previously registered on November 20, 2012. Pursuant to this offering, DCT may sell up to 20 million shares of common stock from time-to-time through May 29, 2016 in at-the-market offerings or certain other transactions. During the year ended December 31, 2013, approximately 13.8 million were issued shares through the second and third continuous equity offering programs at an average price of $7.37 per share for proceeds of $100.4 million, net of offering expenses. The proceeds from the sale of shares were contributed to DCTOP in exchange for an equal number of OP Units in the DCTOP and were used for general corporate purposes, including funding acquisitions and repaying debt. As of December 31, 2013, 16.6 million shares remain available to be issued under the current offering.

On August 13, 2013, DCT issued 23.0 million shares of common stock in a public offering at a price of $7.20 per share for proceeds of $158.2 million, net of offering expenses, used for acquisitions, development activities, repayment of amounts under our senior unsecured revolving credit facility and other general purposes. The proceeds from the sale of shares were contributed to DCTOP in exchange for an equal number of OP Units in DCTOP.

Critical Accounting Policies and Estimates

General

Our discussion and analysis of financial condition and results of operations is based on our Consolidated Financial Statements which have been prepared in accordance with United States generally accepted accounting principles (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and contingencies as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate our assumptions and estimates on an on-going basis. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The following

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discussion pertains to accounting policies management believes are most critical to the portrayal of our financial condition and results of operations that require management s most difficult, subjective or complex estimates.

Revenue Recognition

We record rental revenues on a straight-line basis under which contractual rent increases are recognized evenly over the lease term. Certain properties have leases that provide for customer occupancy during periods where no rent is due or where minimum rent payments change during the term of the lease. Accordingly, we record receivables from customers that we expect to collect over the remaining lease term, which are recorded as a straight-line rent receivable. When we acquire a property, the terms of existing leases are considered to commence as of the acquisition date for the purposes of this calculation.

Tenant recovery income includes payments and amounts due from customers pursuant to their leases for real estate taxes, insurance and other recoverable property operating expenses and is recognized as Rental revenues during the same period the related expenses are incurred.

We maintain an allowance for estimated losses that may result from the inability of our customers to make required payments. This estimate requires significant judgment related to the lessees ability to fulfill their obligations under the leases. If a customer is insolvent or files for bankruptcy protection and fails to make contractual payments beyond any allowance, we may recognize additional bad debt expense in future periods equal to the net outstanding balances, which include amounts recognized as straight-line revenue not realizable until future periods.

In connection with property acquisitions qualifying as business combinations, we may acquire leases with rental rates above or below the market rental rates. Such differences are recorded as an intangible lease asset or liability and amortized to Rental revenues over the reasonably assured term of the related leases. The unamortized balances of these assets and liabilities associated with the early termination of leases are fully amortized to their respective revenue line items in our Consolidated Statements of Operations over the shorter of the expected life of such assets and liabilities or the remaining lease term.

Capitalization of Costs

We capitalize costs directly related to the development, pre-development, redevelopment or improvement of our investment in real estate, referred to as capital projects and other activities included within this paragraph. Costs associated with our capital projects are capitalized as incurred. If the project is abandoned, these costs are expensed during the period in which the project is abandoned. Costs considered for capitalization include, but are not limited to, construction costs, interest, real estate taxes and insurance, if appropriate. We capitalize indirect costs such as personnel, office, and administrative expenses that are directly related to our development projects based on an estimate of the time spent on the construction and development activities. These costs are capitalized only during the period in which activities necessary to ready an asset for its intended use are in progress and such costs are incremental and identifiable to a specific activity to get the asset ready for its intended use. We determine when the capitalization period begins and ends through communication with project and other managers responsible for the tracking and oversight of individual projects. In the event that the activities to ready the asset for its intended use are suspended, the capitalization period will cease until such activities are resumed. In addition, we capitalize initial direct costs incurred for successful origination of new leases. Costs incurred for maintaining and repairing our properties, which do not extend their useful lives, are expensed as incurred.

Interest is capitalized based on actual capital expenditures from the period when development or redevelopment commences until the asset is ready for its intended use, at the weighted average borrowing rates in effect during the period. We also capitalize interest on our qualifying investments in unconsolidated joint ventures based on the average capital invested in a venture during the period when the venture has activities in progress necessary to commence its planned principal operations, at our weighted average borrowing rate during the period. A qualifying investment is an investment in an unconsolidated joint venture provided that our investee s activities include the use of funds to acquire qualifying assets, such as development or predevelopment activities, and planned principal operations have not commenced.

Investment in Properties

We record the assets, liabilities and noncontrolling interests associated with property acquisitions which qualify as business combinations at their respective acquisition date fair values which are derived using a market, income or replacement cost approach, or a combination thereof. Acquisition related costs associated with business combinations are expensed as incurred. As defined by GAAP, a business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors or other owners, members or participants. We generally do not consider acquisitions of land or unoccupied buildings to be business combinations. Rather, these transactions are treated as asset acquisitions and recorded at cost.

The fair value of identifiable tangible assets such as land, building, building and land improvements and tenant improvements is determined on an as-if-vacant basis which requires significant judgment by management. Management considers estimates such as the replacement cost of such assets, appraisals, property condition reports, comparable market rental data and other related information in determining the fair value of the tangible assets. The recorded fair value of intangible lease assets or liabilities includes the value associated with leasing commissions, legal and other costs, as well as the estimated period necessary to lease such property and lease commencement. An intangible asset or liability resulting from in-place leases that are above or below the market rental rates are valued based upon management s estimates of prevailing market rates for similar leases. Intangible lease assets or liabilities are amortized over the reasonably assured lease term of the remaining in-place leases as an adjustment to Rental revenues or Real estate related depreciation and amortization depending on the nature of the intangible. The difference between the fair value and the face value of debt assumed in connection with an acquisition is recorded as a premium or discount and amortized to Interest expense over the life of the debt assumed. The valuation of assumed liabilities is based on our estimate of the current market rates for similar liabilities in effect at the acquisition date.

We have certain properties which we have acquired or removed from service with the intention to redevelop the property. Buildings under redevelopment require significant construction activities prior to being placed back into service. We generally do not depreciate properties classified as redevelopment until the date that the redevelopment properties are ready for their intended use.

Real estate, including land, building, building and land improvements, and tenant improvements, leasing costs and intangible lease assets and liabilities are stated at historical cost less accumulated depreciation and amortization, unless circumstances indicate that the cost cannot be recovered, in which case, the carrying value of the property is reduced to estimated fair value. Our estimate of the useful life of our assets is evaluated upon acquisition and when circumstances indicate a change in the useful life, which requires significant judgment regarding the economic obsolescence of tangible and intangible assets.

Impairment of Properties

Investments in properties classified as held for use are carried at cost and evaluated for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable. As we selectively dispose of non-strategic assets and redeploy the proceeds into higher growth assets, our intended hold period may change due to our intention to sell or otherwise dispose of an asset. As a result, we would assess whether that asset is impaired. Depending on the carrying value of the property at that time and the amount that we estimate we would receive on disposal, we may record an impairment loss. Other indicators include the point at which we deem a building to be held for sale or when a building remains vacant significantly longer than expected.

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For investments in properties that we intend to hold long-term, the recoverability is based on estimated future undiscounted cash flows. If the asset carrying value is not recoverable on an undiscounted cash flow basis, the amount of impairment is measured as the difference between the carrying value and the fair value of the asset and is reflected in Impairment losses on the Consolidated Statements of Operations. The determination of fair value of real estate assets to be held for use is derived using the discounted cash flow method and involves a number of management assumptions relating to future economic events that could materially affect the determination of the ultimate value, and therefore, the carrying amounts of our real estate. Such assumptions are management s estimates and include, but are not limited to, projected vacancy rates, rental rates, property operating expenses and capital expenditures. The capitalization rate is also a significant driving factor in determining the property valuation and requires management s judgment of factors such as market knowledge, market supply and demand factors, historical experience, lease terms, customer s financial strength, economy, demographics, environment, property location, visibility, age, physical condition and expected return requirements, among other things. The aforementioned factors are taken as a whole by management in determining the valuation of investment property. The valuation is sensitive to the actual results of many of these uncertain factors, either individually or taken as a whole. Should the actual results differ from management s estimates, the valuation could be negatively affected and may result in additional impairments recorded in the Consolidated Financial Statements.

Investments in properties classified as held for sale are recorded at the lower of their carrying amount or fair value (typically estimated based on the contracted sales price) less costs to sell. Impairment of assets held for sale is a component of Income from discontinued operations in the Consolidated Statements of Operations and is further detailed in Notes to Consolidated Financial Statements Note 15 Discontinued Operations and Assets Held for Sale.

Impairment of Investments in and Advances to Unconsolidated Joint Ventures

We evaluate investments in and advances to unconsolidated joint ventures for impairment whenever events or changes in circumstances indicate that there may be an other-than-temporary decline in value. To do so, we calculate the estimated fair value of the investment using a market, income or replacement cost approach, or combination thereof. The amount of impairment recognized, if any, would be the excess of the investment s carrying amount over its estimated fair value. We consider various factors to determine if a decline in the value of the investment is other-than-temporary, which include but are not limited to, the age of the venture, our intent and ability to retain our investment in the entity, the financial condition and long-term prospects of the entity, expected term of the investment and the relationships with the other joint venture partners and its lenders. If we believe that the decline in the fair value is temporary, no impairment is recorded. The aforementioned factors are taken as a whole by management in determining the valuation of our investment. Should the actual results differ from management s estimates, the valuation could be negatively affected and may result in additional impairments in the Consolidated Financial Statements.

Results of Operations

Summary of the year ended December 31, 2013 compared to the year ended December 31, 2012

As of December 31, 2013, we owned interests in, managed or had under development approximately 75.5 million square feet of properties leased to approximately 900 customers, including 12.3 million square feet of unconsolidated properties on behalf of four institutional capital management joint venture partners and we consolidated 395 operating properties, two redevelopment properties, two development properties and one property which was held for sale. As of December 31, 2012, we consolidated 399 operating properties, four redevelopment properties, three development properties and three properties which were held for sale.

Comparison of the year ended December 31, 2013 to the year ended December 31, 2012

The following table illustrates the changes in rental revenues, rental expenses and real estate taxes, property net operating income, other revenue and other income (loss) and other expenses for the year ended December 31, 2013 compared to the year ended December 31, 2012. Our same store portfolio includes all

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operating properties that we owned for the entirety of both the current and prior year reporting periods for which the operations had been stabilized. We generally consider buildings stabilized when occupancy reaches 90%. Non-same store operating properties include properties not meeting the same-store criteria and exclude development and redevelopment properties. The same store portfolio for the periods presented totaled 321 operating properties and was comprised of 48.6 million square feet. A discussion of these changes follows the table (in thousands):

	Year Ended December 31,			
	2013	**2012**	**$ Change**	**Percent Change**
Rental Revenues				
Same store, excluding revenues related to early lease terminations	$ 233,191	$ 226,927	$ 6,264	2.8%
Non-same store operating properties	51,073	9,175	41,898	456.7%
Development and redevelopment	652	185	467	252.4%
Revenues related to early lease terminations	1,302	552	750	135.9%
Total rental revenues	286,218	236,839	49,379	20.8%
Rental Expenses and Real Estate Taxes				
Same store	67,010	63,908	3,102	4.9%
Non-same store operating properties	12,784	2,249	10,535	468.4%
Development and redevelopment	231	233	(2)	-0.9%
Total rental expenses and real estate taxes	80,025	66,390	13,635	20.5%
Property Net Operating Income(1)				
Same store, excluding revenues related to early lease terminations	166,181	163,019	3,162	1.9%
Non-same store operating properties	38,289	6,926	31,363	452.8%
Development and redevelopment	421	(48)	469	977.1%
Revenues related to early lease terminations	1,302	552	750	135.9%
Total property net operating income	206,193	170,449	35,744	21.0%
Other Revenue and Other Income (Loss)				
Development profit	268	307	(39)	-12.7%
Institutional capital management and other fees	2,787	4,059	(1,272)	-31.3%
Equity in earnings of unconsolidated joint ventures, net	2,405	1,087	1,318	121.3%
Interest and other income	274	85	189	222.4%
Casualty and involuntary conversion gain	296	1,174	(878)	-74.8%
Total other revenue and other income	6,030	6,712	(682)	-10.2%
Other Expenses				
Real estate related depreciation and amortization	130,002	109,993	20,009	18.2%

Interest expense	63,394	69,274	(5,880)	-8.5%
General and administrative	28,010	25,763	2,247	8.7%
Income tax expense and other taxes	68	671	(603)	-89.9%
Total other expenses	221,474	205,701	15,773	7.7%
Income from discontinued operations	26,723	11,800	14,923	126.5%
Net (income) loss attributable to noncontrolling interests	(589)	272	(861)	-316.5%
Net income (loss) attributable to OP Unitholders	$ 16,883	$ (16,468)	$ 33,351	202.5%

(1) For a discussion as to why we view property net operating income to be an appropriate supplemental performance measure and a reconciliation of our property net operating income to our reported Loss from Continuing Operations, see Selected Consolidated Financial Data.

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Rental Revenues and Leasing Activity

Rental revenues, which are comprised of base rent, straight-line rent, amortization of above and below market rent intangibles, tenant recovery income, other rental revenues and early lease termination fees, increased $49.4 million for the year ended December 31, 2013 compared to the same period in 2012, primarily due to the following changes:

- $43.1 million increase in our non-same store rental revenues including development and redevelopment properties, primarily as a result of an increase in the number of properties and an increase in average occupancy year over year. Since December 31, 2012, we acquired 38 operating properties, six properties for development and completed development of five properties.

- $6.3 million increase in total revenue in our same store portfolio due primarily to the following:

  - $6.7 million increase in base rent primarily resulting from increased rental rates and a 100 basis point increase in average occupancy year over year;

  - $3.2 million increase in operating expense recoveries related to a higher average occupancy; and

  - $1.3 million increase in other rental revenues primarily related to increases in amortization of below market rent and other rents; which was partially offset by

  - $5.0 million decrease in straight-line rental revenue as a result of fewer rent concessions.

The following table illustrates the components of our consolidated rental revenues for the years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31,		
	2013	**2012**	**$ Change**
Base rent	$ 212,045	$ 176,798	$ 35,247
Straight-line rent	5,335	6,254	(919)
Amortization of above and below market rent intangibles	1,581	826	755
Tenant recovery income	63,829	51,695	12,134
Other rental income	2,126	714	1,412
Revenues related to early lease terminations	1,302	552	750
Total rental revenues	$ 286,218	$ 236,839	$ 49,379

The following table provides a summary of our leasing activity for the year ended December 31, 2013:

	Number of Leases Signed	Square Feet Signed[1] (in thousands)	Net Effective Rent Per Square Foot[2]	GAAP Basis Rent Growth[3]	Weighted Average Lease Term[4] (in months)	Turnover Costs Per Square Foot[5]	Weighted Average Retention[6]
Year to date 2013	299	13,836	$ 4.37	6.60%	53	$ 1.77	72.0%

(1) Excludes month to month leases.

(2) Net effective rent is the average base rent calculated in accordance with GAAP, over the term of the lease.

(3) GAAP basis rent growth is an annual ratio of the change in net effective rent (including straight-line rent adjustments as required by GAAP) compared to the net effective rent of the comparable lease. Leases where there were no prior comparable leases, due to extended downtime, or materially different lease structures and short-term lease of less than 12 months, are excluded.

(4) The lease term is in months. Assumes no exercise of lease renewal options, if any.

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(5) Turnover costs are comprised of the costs incurred or capitalized for improvements of vacant and renewal spaces, as well as the commissions paid and costs capitalized for leasing transactions. Turnover costs per square foot represent the total turnover costs expected to be incurred on the leases signed during the period and does not reflect actual expenditures for the period.

(6) Represents the percentage of customers renewing their respective leases weighted by average square feet.

During the year ended December 31, 2013, we signed 102 leases with free rent, which were for 5.8 million square feet of property with total concessions of $6.6 million.

Rental Expenses and Real Estate Taxes

Rental expenses and real estate taxes increased $13.6 million for the year ended December 31, 2013 compared to the same period in 2012, primarily due to:

- $10.5 million increase in rental expenses and real estate taxes related to the properties acquired and development and redevelopment properties placed into operation during the period ended December 31, 2013; and

- $3.1 million increase in rental expenses and real estate taxes year over year in our same store portfolio, which was primarily due to increases in property taxes, snow removal, management fees and bad debt expense.

Other Revenue and Other Income (Loss)

Total other revenue and other income (loss) decreased $0.7 million for the year ended December 31, 2013 as compared to the same period in 2012, primarily due to:

- $1.3 million decrease in institutional capital management fees as a result of a decrease in assets under management due to the sale of properties from our unconsolidated joint ventures; and

- $0.9 million decrease in casualty gains related to amounts received from insurance companies during 2012 for casualty events at certain properties; partially offset by

- $1.3 million increase in equity in earnings of unconsolidated joint ventures primarily as a result of an increase in occupancy in three of our joint ventures.

Other Expenses

Other expenses increased $15.8 million for the year ended December 31, 2013 as compared to the same period in 2012, primarily as a result of:

$20.0 million increase in depreciation and amortization expense, resulting from real estate acquisitions and capital additions; and

$2.2 million increase in general and administrative expenses primarily related to higher acquisition costs and personnel costs, partially offset by an increase in capitalized overhead as a result of increased development, leasing and other capital activities; partially offset by

$5.9 million decrease in interest expense as a result of the $175.0 million term loan paid down in March 2013, lower borrowings on our revolving line of credit, hedging ineffectiveness of $0.7 million during 2012 and an increase in capitalized interest in 2013 related to increased development activities.

Income from Discontinued Operations

Income from discontinued operations increased $14.9 million for the year ended December 31, 2013 as compared to the same period in 2012. This increase is primarily related to the gain on dispositions totaling $33.6 million partially offset by impairment charges of $13.3 million recorded on sales of properties during 2013, as compared to gain on dispositions totaling $13.4 million partially offset by impairment charges of $11.4 million recorded on sales of properties during 2012. Additionally, the increase was offset by lower operating and other income from properties sold or held for sale in 2013 compared to 2012.

Summary of the year ended December 31, 2012 compared to the year ended December 31, 2011

As of December 31, 2012, we consolidated 399 operating properties, four redevelopment properties, three development properties and three properties which were held for sale. As of December 31, 2011, we consolidated 408 operating properties and one redevelopment property.

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Comparison of the year ended December 31, 2012 to the year ended December 31, 2011

The following table illustrates the changes in rental revenues, rental expenses and real estate taxes, property net operating income, other revenue and other income (loss) and other expenses for the year ended December 31, 2012 compared to the year ended December 31, 2011. Our same store portfolio includes all operating properties that we owned for the entirety of both the current and prior year reporting periods for which the operations had been stabilized. We generally consider buildings stabilized when occupancy reaches 90%. The same store portfolio for the periods presented totaled 288 buildings comprised of approximately 44.6 million square feet. A discussion of these changes follows the table (in thousands):

	Year Ended December 31, 2012	Year Ended December 31, 2011	$ Change	Percent Change
Rental Revenues				
Same store, excluding revenues related to early lease terminations	$ 203,850	$ 199,023	$ 4,827	2.4%
Non-same store operating properties	32,252	11,899	20,353	171.0%
Development and redevelopment	185		185	100.0%
Revenues related to early lease terminations	552	614	(62)	-10.1%
Total rental revenues	236,839	211,536	25,303	12.0%
Rental Expenses and Real Estate Taxes				
Same store	57,486	57,344	142	0.2%
Non-same store operating properties	8,672	3,882	4,790	123.4%
Development and redevelopment	232	141	91	64.5%
Total rental expenses and real estate taxes	66,390	61,367	5,023	8.2%
Property Net Operating Income(1)				
Same store, excluding revenues related to early lease terminations	146,364	141,679	4,685	3.3%
Non-same store operating properties	23,580	8,017	15,563	194.1%
Development and redevelopment	(47)	(141)	94	66.7%
Revenues related to early lease terminations	552	614	(62)	-10.1%
Total property net operating income	170,449	150,169	20,280	13.5%
Other Revenue and Other Income (Loss)				
Development profit	307		307	100.0%
Institutional capital management and other fees	4,059	4,291	(232)	-5.4%
Equity in earnings (loss) of unconsolidated joint ventures, net	1,087	(2,556)	3,643	142.5%
Interest and other income (expense)	85	(93)	178	191.4%
Casualty and involuntary conversion gain	1,174		1,174	100.0%
Total other revenue and other income	6,712	1,642	5,070	308.8%

Other Expenses				
Real estate related depreciation and amortization	109,993	103,333	6,660	6.4%
Interest expense	69,274	63,645	5,629	8.8%
General and administrative	25,763	25,251	512	2.0%
Impairment losses on investments in unconsolidated joint ventures		1,953	(1,953)	-100.0%
Income tax expense and other taxes	671	132	539	408.3%
Total other expenses	205,701	194,314	11,387	5.9%
Income from discontinued operations	11,800	13,660	(1,860)	-13.6%
Net loss attributable to noncontrolling interests	272	958	(686)	-71.6%
Net loss attributable to OP Unitholders	$ (16,468)	$ (27,885)	$ 11,417	40.9%

(1) For a discussion as to why we view property net operating income to be an appropriate supplemental performance measure and a reconciliation of our property net operating income to our reported Loss from Continuing Operations, see Selected Consolidated Financial Data

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Rental Revenues

Rental revenues, which are comprised of base rent, straight-line rent, amortization of above and below market rent intangibles, tenant recovery income, early lease termination fees and other rental revenues, increased $25.3 million for the year ended December 31, 2012 compared to the same period in 2011, primarily due to the following changes:

- $20.5 million increase in our non-same store rental revenues including development and redevelopment properties, primarily as a result of an increase in the number of properties and an increase in average occupancy year over year. Since December 31, 2011, we acquired 29 operating properties, four redevelopment properties and completed development or redevelopment of three properties.

- $4.8 million increase in total revenue in our same store portfolio due primarily to the following:

  - $4.8 million increase in base rent primarily resulting from increased rental rates and a 140 basis point increase in average occupancy year over year; and

  - $3.5 million increase in operating expense recoveries related to a higher average occupancy; which was partially offset by

  - $3.2 million decrease in straight-line rental revenue as a result of fewer rent concessions; and

  - $0.2 million decrease in early lease termination fees.

The following table illustrates the components of our consolidated rental revenues for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31,		
	2012	2011	$ Change
Base rent	$ 176,798	$ 157,885	$ 18,913
Straight-line rent	6,254	8,301	(2,047)
Amortization of above and below market rent intangibles	826	387	439
Tenant recovery income	51,695	43,579	8,116
Other rental income	714	770	(56)
Revenues related to early lease terminations	552	614	(62)
Total rental revenues	$ 236,839	$ 211,536	$ 25,303

The following table provides a summary of our leasing activity for the year ended December 31, 2012:

	Number of Leases Signed	**Square Feet Signed[(1)]** (in thousands)	**Net Effective Rent Per Square Foot[(2)]**	**GAAP Basis Rent Growth[(3)]**	**Weighted Average Lease Term[(4)]** (in months)	**Turnover Costs Per Square Foot[(5)]**	**Weighted Average Retention[(6)]**
Year to date 2012	305	15,492	$ 3.81	4.60%	56	$ 1.83	73.4%

(1) Excludes month to month leases.

(2) Net effective rent is the average base rent calculated in accordance with GAAP, over the term of the lease.

(3) GAAP basis rent growth is an annual ratio of the change in net effective rent (including straight-line rent adjustments as required by GAAP) compared to the net effective rent of the comparable lease. Leases where there were no prior comparable leases, due to extended downtime, or materially different lease structures and short-term lease of less than 12 months, are excluded.

(4) The lease term is in months. Assumes no exercise of lease renewal options, if any.

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(5) Turnover costs are comprised of the costs incurred or capitalized for improvements of vacant and renewal spaces, as well as the commissions paid and costs capitalized for leasing transactions. Turnover costs per square foot represent the total turnover costs expected to be incurred on the leases signed during the period and does not reflect actual expenditures for the period.

(6) Represents the percentage of customers renewing their respective leases weighted by average square feet.

Rental Expenses and Real Estate Taxes

Rental expenses and real estate taxes increased $5.0 million for the year ended December 31, 2012 compared to the same period in 2011, primarily due to a $4.9 million increase in rental expenses and real estate taxes related to the properties acquired and development and redevelopment properties placed into operation during the period.

Other Revenue and Other Income (Loss)

Total other revenue and other income (loss) increased $5.1 million for the year ended December 31, 2012 as compared to the same period in 2011, primarily due to:

$3.6 million increase in equity in earnings (loss) of unconsolidated joint ventures primarily as a result of an increase in occupancy in two of our joint ventures, as well as gains recognized on the sale of two properties in our joint ventures; and

$1.2 million increase in casualty gains related to amounts received from insurance companies subsequent to December 31, 2012 for casualty events at certain properties.

Other Expenses

Other expenses increased $11.4 million for the year ended December 31, 2012 as compared to the same period in 2011, primarily as a result of:

$6.7 million increase in real estate depreciation and amortization expense resulting from real estate acquisitions and capital additions;

$5.6 million increase in interest expense primarily related to higher average borrowings and $0.7 million related to hedge ineffectiveness recognized during the year ended December 31, 2012 related to our settled hedge liability (see Notes to the Consolidated Financial Statements Note 6 Financial Instruments and Hedging Activities for further detail related to the hedge activity); and

$0.5 million increase in general and administrative expenses, primarily related to an increase in acquisition costs for the increased number of properties acquired during 2012; which were partially offset by

$2.0 million decrease in impairment losses on unconsolidated joint ventures related to an impairment recorded in 2011 on a property sold in an unconsolidated joint venture.

Income from Discontinued Operations

Income from discontinued operations decreased $1.9 million for the year ended December 31, 2012 as compared the same period in 2011. This change is primarily the result of a casualty gain recorded in 2011 on a property subsequently sold as well as higher net gains on properties sold in 2011.

Segment Summary for the years ended December 31, 2013, 2012 and 2011

Our segments are based on our internal reporting of operating results used to assess performance based on our properties geographical markets. Our markets are aggregated into three reportable regions or segments, East, Central and West, which are based on the geographical locations of our properties (see Business and Properties for a listing of our properties by market broken into our reportable segments). We consider rental

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revenues and property net operating income aggregated by segment to be the appropriate way to analyze performance. Certain reclassifications have been made to prior year results to conform to the current presentation related to discontinued operations. The following segment disclosures exclude the results from discontinued operations (see Notes to the Consolidated Financial Statements, Note 15 Discontinued Operations and Assets Held for Sale for additional information):

	As of December 31,				Year Ended December 31,	
	Number of buildings	Square feet	Occupancy at period end	Segment assets[(1)]	Rental revenues[(2)]	Property net operating income [(3)]
EAST:						
2013	132	23,163	90.3%	$ 1,026,416	$ 95,682	$ 69,853
2012	117	19,651	86.0%	$ 875,845	$ 82,909	$ 60,666
2011	110	18,970	89.0%	$ 936,305	$ 79,920	$ 58,212
CENTRAL:						
2013	166	26,699	92.2%	$ 1,034,814	$ 111,017	$ 76,327
2012	151	23,663	90.8%	$ 1,107,561	$ 90,037	$ 61,800
2011	137	20,367	90.7%	$ 1,021,956	$ 76,376	$ 50,660
WEST:						
2013	101	13,088	93.6%	$ 1,018,246	$ 79,519	$ 60,013
2012	90	11,456	97.2%	$ 863,003	$ 63,893	$ 47,983
2011	78	10,042	91.3%	$ 669,591	$ 55,240	$ 41,297

(1) Segment assets include all assets comprising operating properties included in a segment, less non-segment cash and cash equivalents, other non-segment assets, and assets held for sale. The prior year segment assets are not restated for current year discontinued operations.

(2) Segment rental revenues include operating properties and development properties. Revenues from properties which were held for sale or sold are included in discontinued operations and are not included in these results.

(3) For a discussion as to why we view property net operating income to be an appropriate supplemental performance measure and a reconciliation of our property net operating income to our reported Loss from Continuing Operations, see Selected Consolidated Financial Data.

The following table reflects our total assets, net of accumulated depreciation and amortization, by segment (in thousands):

	December 31, 2013	December 31, 2012	December 31, 2011
Segments:			
East assets	$ 1,026,416	$ 875,845	$ 936,305
Central assets	1,034,814	1,107,561	1,021,956
West assets	1,018,246	863,003	669,591
Total segment net assets	3,079,476	2,846,409	2,627,852

Non-segment assets:			
Non-segment cash and cash equivalents	25,671	8,653	11,624
Other non-segment assets[1]	152,620	149,285	153,822
Assets held for sale	8,196	52,852	
Total assets	$ 3,265,963	$ 3,057,199	$ 2,793,298

(1) Other non-segment assets primarily consists of investments in and advances to unconsolidated joint ventures, deferred loan costs, other receivables and other assets.

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East Segment

East Segment assets increased by approximately $150.6 million in 2013 due to the acquisition of 13 properties and completion of development of two operating properties since December 31, 2012.

East Segment assets decreased by approximately $60.5 million in 2012 due to the disposition of 20 properties, partially offset by the acquisition of seven properties and the completion of the development of two properties since December 31, 2011.

East Segment property NOI, after reclassification for discontinued operations, increased approximately $9.2 million, for the year ended December 31, 2013 as compared to the same period in 2012 primarily as a result of:

$12.8 million increase in rental revenues, of which $6.7 million is attributed to property acquisitions and $6.1 million is attributed to increased occupancy and higher rental revenues at existing properties; which was partially offset by

$3.6 million increase in operating expenses primarily comprised of increased property taxes, property insurance and maintenance.

East Segment property NOI, after reclassification for discontinued operations, increased approximately $2.5 million, for the year ended December 31, 2012 as compared to the same period in 2011 primarily as a result of:

$3.0 million increase in rental revenues, of which $0.9 million is attributed to property acquisitions and $2.1 million is attributed to increased occupancy and higher rental revenues at existing properties; which was partially offset by

$0.5 million increase in operating expenses primarily comprised of increased property taxes, property insurance and maintenance primarily due to property acquisitions.

Central Segment

Central Segment assets decreased by approximately $72.7 million in 2013 due to the disposition of 47 properties, including the disposition of our entire portfolio in Mexico consisting of 15 properties, partially offset by the acquisition of 14 properties and completion of development of one property since December 31, 2012.

Central Segment assets increased by approximately $85.6 million in 2012 due to the acquisition of 12 properties and completion of development of one property, partially offset by the disposition of 16 properties since December 31, 2011.

Central Segment property NOI, after reclassification for discontinued operations, increased approximately $14.5 million, for the year ended December 31, 2013 as compared to the same period in 2012 primarily as a result of:

$21.0 million increase in rental revenues, of which $3.7 million is attributed to property acquisitions and $17.3 million is attributed to an increase in occupancy and higher rental revenues at existing properties; which was partially offset by

$6.5 million increase in operating expenses primarily comprised of increased property taxes, property insurance primarily due to property acquisitions and an increase in bad debt related to a tenant default.

Central Segment property NOI, after reclassification for discontinued operations, increased approximately $11.1 million, for the year ended December 31, 2012 as compared to the same period in 2011 primarily as a result of:

- $13.7 million increase in rental revenues, of which $3.7 million is attributed to property acquisitions and $10.0 million is attributed to an increase in occupancy and higher rental revenues at existing properties; which was partially offset by

- $2.6 million increase in operating expenses primarily comprised of increased property taxes and property insurance primarily due to property acquisitions.

West Segment

West Segment assets increased by approximately $155.2 million in 2013 due to the acquisition of 11 properties and completion of development of one property, partially offset by the disposition of one property since December 31, 2012.

West Segment assets increased by approximately $193.4 million in 2012 due to the acquisition of 12 properties since December 31, 2011.

West Segment property NOI, after reclassification for discontinued operations, increased approximately $12.0 million, for the year ended December 31, 2013 as compared to the same period in 2012 primarily as a result of:

- $15.6 million increase in rental revenues, of which $2.9 million is attributed to property acquisitions and $12.7 million which is attributed to an increase in occupancy and higher rental revenues at existing properties; which was partially offset by

- $3.6 million increase in operating expenses primarily comprised of increased property taxes and property insurance.

West Segment property NOI, after reclassification for discontinued operations, increased approximately $6.7 million, for the year ended December 31, 2012 as compared to the same period in 2011 primarily as a result of:

- $8.7 million increase in rental revenues, of which $2.2 million is attributed to property acquisitions and $6.5 million is attributed to an increase in occupancy and higher rental revenues at existing properties; which was partially offset by

$2.0 million increase in operating expenses primarily comprised of increased property taxes and property insurance.

Liquidity and Capital Resources

Overview

We currently expect that our principal sources of working capital and funding for potential capital requirements for expansions and renovation of properties, developments, acquisitions, and debt service and distributions to shareholders will include:

- Cash flows from operations;
- Proceeds from dispositions;
- Borrowings under our senior unsecured revolving credit facility;
- Other forms of secured or unsecured financings;
- Offerings of common stock or other securities;
- Current cash balances; and
- Distributions from institutional capital management and other joint ventures.

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Our sources of capital will be used to meet our liquidity requirements and capital commitments, including operating activities, debt service obligations, equityholder distributions, capital expenditures at our properties, development funding requirements and future acquisitions. We expect to utilize the same sources of capital to meet our short-term and long-term liquidity requirements.

Cash Flows

Year ended December 31, 2013 compared to year ended December 31, 2012

Cash and cash equivalents were $32.2 million and $12.7 million as of December 31, 2013 and December 31, 2012, respectively.

The table below summarizes our cash flow activity for the years ended December 31, 2013 and 2012 (in thousands):

	Year Ended December 31, 2013	Year Ended December 31, 2012	Change
Net cash provided by operating activities	$ 152,893	$ 118,956	$ 33,937
Net cash used in investing activities	$ (301,058)	$ (299,138)	$ (1,920)
Net cash provided by financing activities	$ 167,695	$ 180,044	$ (12,349)

Net cash provided by operating activities increased $33.9 million primarily due to an increase in property net operating income, as a result of an increase in occupancy and rental rates (see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Rental Revenues and Leasing Activity for further details), and an increase in accounts payable, accrued expenses and other liabilities, and a decrease in straight-line rent due to fewer rent concessions.

Net cash used in investing activities increased $1.9 million primarily due to an increase in real estate acquisitions of $42.7 million, a $20.7 million decrease in distributions of investments in unconsolidated joint ventures resulting from the sale of three properties in our unconsolidated joint ventures in 2012 and an increase of cash outflows related to capital expenditures of $56.8 million as reflected in the table below. These activities were partially offset by an increase in dispositions of $104.5 million and a decrease in investments in unconsolidated joint ventures of $16.7 million.

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Going forward, we will pursue the acquisition of buildings and land and consider selective development of new buildings in markets where we perceive that demand and market rental rates will provide attractive financial returns. The amount of cash used related to acquisitions and development and redevelopment investments will vary from period to period based on a number of factors, including, among others, current and anticipated future market conditions impacting the desirability of investments, leasing results with respect to our existing development and redevelopment projects and our ability to locate attractive opportunities. See Management s Discussion and Analysis of Financial Condition and Results of Operations Summary of Significant Transactions During 2013 Development Activities for further details regarding projected investment of our current development activities as well as cumulative costs incurred during the year ended December 31, 2013. Our total capital expenditures for the years ended December 31, 2013 and 2012 were comprised of the following (in thousands):

	Year Ended December 31,		
	2013	**2012**	**$ Change**
Development	$ 107,950	$ 46,701	$ 61,249
Redevelopment	5,948	3,319	2,629
Due diligence and other	9,209	4,782	4,427
Other capital improvements	4,024	5,710	(1,686)
Building and land improvements	12,394	12,619	(225)
Tenant improvements and leasing costs	26,219	31,388	(5,169)
Total capital expenditures and development activities	165,744	104,519	61,225
Accruals and other adjustments	(12,822)	(8,424)	(4,398)
Total cash paid for capital expenditures and development activities	$ 152,922	$ 96,095	$ 56,827

We capitalize costs directly related to the development, predevelopment, redevelopment or improvement of our investments in real estate. Building and land improvements comprise capital expenditures related to maintaining our consolidated operating activities. Due diligence capital improvements relate to acquired operating properties and are generally incurred within 12 months of the acquisition date.

We capitalize indirect costs such as personnel, office and administrative expenses that are directly related to our development, redevelopment projects and successful origination of new leases based on an estimate of the time spent on the development and leasing activities. These capitalized costs for the years ended December 31, 2013, 2012 and 2011 were $7.8 million, $6.3 million and $5.0 million, respectively. During the year ended December 31, 2013, 2012 and 2011 total interest expense capitalized was $8.3 million, $4.3 million and $2.7 million, respectively.

Net cash provided by financing activities decreased $12.3 million primarily due to a decrease of $125.2 million in net proceeds from debt activity. During 2013, our senior unsecured revolving credit facility s repayments exceeded our proceeds from borrowings by $71.0 million while in 2012 our proceeds from borrowings exceeded our repayments by $110.0 million. Proceeds from senior unsecured notes exceeded repayments of senior unsecured notes by $97.4 million and $90.0 million, respectively, during 2013 and 2012. Principal payments on mortgage notes exceeded proceeds from mortgage notes by $24.2 million and $72.7 million, respectively, during 2013 and 2012.

Additionally, net cash provided by financing activities decreased due to an increase of $11.4 million in our distributions paid to OP Unitholders and noncontrolling interests. These changes were partially offset by an increase of $87.3 million for the issuance of OP Units in exchange for contributions from the REIT, a $33.6 million payment made to settle our cash flow hedge in 2012 and a $1.8 million decrease in cash outflow relating to redemptions of OP Units.

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Year ended December 31, 2012 compared to year ended December 31, 2011

Cash and cash equivalents were $12.7 million and $12.8 million as of December 31, 2012 and December 31, 2011, respectively.

The table below summarizes our cash flow activity for the years ended December 31, 2012 and 2011 (in thousands):

	Year Ended December 31, 2012	Year Ended December 31, 2011	Change
Net cash provided by operating activities	$ 118,956	$ 106,482	$ 12,474
Net cash used in investing activities	$ (299,138)	$ (177,823)	$ (121,315)
Net cash provided by financing activities	$ 180,044	$ 66,845	$ 113,199

Net cash provided by operating activities increased $12.5 million primarily due to an increase in property net operating income, partially offset by an increase in net cash payments related to changes in operating assets and liabilities compared to the year ended December 31, 2011.

Net cash used in investing activities increased $121.3 million due to an increase in cash flows related to acquisitions of $159.1 million and an increase of cash outflows related to capital expenditures, as reflected in the table below, of $20.5 million, partially offset by a $47.3 million increase in proceeds from dispositions and a $9.9 million increase in distributions of our investments in unconsolidated joint ventures.

Our total capital expenditures for the years ended December 31, 2012 and 2011 were comprised of the following (in thousands):

	Year Ended December 31, 2012	Year Ended December 31, 2011	$ Change
Development	$ 46,701	$ 11,676	$ 35,025
Redevelopment	3,319	6,430	(3,111)
Due diligence and other	4,782	1,264	3,518
Other capital improvements	5,710		5,710
Building and land improvements	12,619	11,601	1,018
Tenant improvements and leasing costs	31,388	39,256	(7,868)
Total capital expenditures and development activities	104,519	70,227	34,292
Accruals and other adjustments	(8,424)	5,324	(13,748)
Total cash paid for capital expenditures and development activities	$ 96,095	$ 75,551	$ 20,544

Net cash provided by financing activities increased $113.2 million primarily due to an increase of $92.2 million in net proceeds from debt activity. During 2012, our senior unsecured revolving credit facility s proceeds from borrowings exceeded our repayments by $110.0 million while in 2011 our repayments exceeded our proceeds from borrowings by $51.0 million. Proceeds from senior unsecured notes exceeded repayments of senior unsecured notes by $90.0 million and $200.0 million, respectively, during 2012 and 2011. Principal payments on mortgage notes exceeded proceeds from mortgage notes by $72.7 million and $113.9 million, respectively, during 2012 and 2011.

Additionally, net cash provided by financing activities increased due to an increase of $59.7 million for the issuance of OP Units in exchange for contributions from the REIT, partially offset by a $33.6 million payment made to settle our cash flow hedge in 2012, an increase of $3.3 million in our distributions paid to OP Unitholders and noncontrolling interests, and a $2.9 million increase in cash outflow relating to redemptions of OP Units.

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OP Units

Limited partners have the right to require DCTOP to redeem all or a portion of the OP Units held by the limited partner at a redemption price equal to and in the form of the Cash Amount (as defined in DCTOP s partnership agreement), provided that such OP Units have been outstanding for at least one year. DCT may, in its sole discretion, purchase the OP Units by paying to the limited partner either the Cash Amount or the REIT Shares Amount (generally one share of DCT s common stock for each OP Unit), as defined in DCTOP s partnership agreement.

During the year ended December 31, 2013 and 2012, 3.1 million and 6.2 million OP Units were redeemed for approximately $1.5 million and $3.3 million in cash and approximately 2.9 million and 5.7 million shares of DCT common stock, respectively. As of December 31, 2013 and 2012 the aggregate redemption value of the then-outstanding OP Units held by limited partners was approximately $125.9 million and $129.6 million, respectively, based on the $7.13 and $6.49 per share closing price of DCT s common stock on December 31, 2013 and 2012, respectively.

On May 29, 2013, DCT registered a third continuous equity offering program, to replace its continuous equity offering program previously registered on November 20, 2012. Pursuant to this offering, DCT may sell up to 20 million shares of common stock from time-to-time through May 29, 2016 in at-the-market offerings or certain other transactions. During the year ended December 31, 2013, approximately 13.8 million shares were issued through the second and third continuous equity offering programs at an average price of $7.37 per share for proceeds of $100.4 million, net of offering expenses. As of December 31, 2013, 16.6 million shares remain available to be issued under the current offering.

On August 13, 2013, DCT issued 23.0 million shares of common stock in a public offering at a price of $7.20 per share for proceeds of $158.2 million, net of offering expenses, used for acquisitions, development activities, repayment of amounts under our senior unsecured revolving credit facility and other general purposes. The proceeds from the sale of shares were contributed to DCTOP in exchange for an equal number of OP Units in DCTOP.

Distributions

During the years ended December 31, 2013 and 2012, the general partner declared distributions to OP Unit holders totaling approximately $92.1 million and $80.2 million, respectively, including distributions to noncontrolling interest holders. Existing cash balances, cash provided from operations and borrowings under our credit facility were used for distributions paid during 2013 and 2012.

The payment of quarterly distributions is determined by DCT s board of directors and may be adjusted at its discretion at any time. During February 2014, DCT s board of directors declared a quarterly cash distribution of $0.07 per OP Unit, payable on April 16, 2014 to OP Unitholders of record as of April 4, 2014.

Outstanding Indebtedness

As of December 31, 2013, our outstanding indebtedness of approximately $1.5 billion consisted of mortgage notes, senior unsecured notes and a senior unsecured revolving credit facility, excluding $44.4 million representing our proportionate share of debt associated with unconsolidated joint ventures. As of December 31, 2012, our outstanding indebtedness consisted of mortgage notes and senior unsecured notes and totaled approximately $1.5 billion, excluding $45.0 million representing our proportionate share of debt associated with unconsolidated joint ventures.

As of December 31, 2013, the gross book value of our consolidated properties was approximately $3.7 billion and the gross book value of all properties securing our mortgage debt was approximately $0.7 billion. As of December 31, 2012, the total gross book value of our consolidated properties was approximately $3.4 billion and the gross book value of all properties securing our mortgage debt was approximately $0.7 billion. Our debt has various covenants with which we were in compliance as of December 31, 2013 and 2012.

Our debt instruments require monthly, quarterly or semiannual payments of interest and many require monthly or quarterly repayments of principal. Currently, cash flows from our operations are sufficient to satisfy these debt service requirements and we anticipate that cash flows from operations will continue to be sufficient to satisfy our debt service excluding principal maturities, which we plan to fund from refinancing and/or new debt.

All of our senior unsecured notes contain certain cross-default provisions which may be triggered in the event that any material indebtedness is in default. These cross-default provisions may require us to repay such senior unsecured debt. We are not in default and do not have any unsecured debt maturities through December 31, 2014.

We have certain non-recourse, secured loans which are cross-collateralized by multiple properties. In the event of a default, we may then be required to repay such indebtedness, together with applicable prepayment charges, to avoid foreclosure on all cross-collateralized properties within the applicable pool. We generally have broad substitution rights that afford an operating property the opportunity to replace encumbered properties with replacement properties. We are not in default and do not have any cross-collateralized debt maturing through December 31, 2014.

In the event of default or foreclosure, or if we are unable to refinance our indebtedness at maturity or meet our payment obligations, the amount of our distributable cash flows and our financial condition would be adversely affected.

Financing Strategy

Our charter and our bylaws do not limit the amount of debt we incur, however, we intend to operate so that our financial metrics are generally consistent with our publicly held investment grade REIT peers. The metrics we consider most significant include leverage, fixed charge coverage and net debt to earnings before interest, taxes, depreciation and amortization. We are also subject to certain covenants which may limit our outstanding indebtedness.

Debt Issuances

During June of 2013, we issued two secured mortgage notes with principal balances of $1.0 million and $6.2 million which mature in June 2023. The notes bear interest at a variable rate, however we have fixed the rate at 4.72% using two variable for floating rate swaps (See Note 6 Financial Instruments and Hedging Activities for further detail). The notes require monthly payments of principal and interest.

During October 2013, we issued $275.0 million aggregate principal amount of 4.50% senior notes due 2023 at 99.038% of face value in a private placement for net proceeds of approximately $269.6 million after offering costs.

Debt Retirement

During March and April 2013, we retired mortgage notes totaling $11.0 million previously scheduled to mature in April and June of 2013, using proceeds from the Company s senior unsecured revolving credit facility and proceeds from our equity offerings.

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During October 2013, in connection with the issuance of $275.0 million in aggregate principal amount of 10-year senior unsecured notes at 99.038% of face value, we primarily used the net proceeds to repay a $15.9 million mortgage note that was scheduled to mature in October 2013, a $50.0 million senior unsecured note that was scheduled to mature in January of 2014 and our $175.0 million senior unsecured term note that was scheduled to mature in February 2015.

Line of Credit

As of December 31, 2013, we had $39.0 million outstanding and $261.0 million available under our senior unsecured revolving credit facility. As of December 31, 2012 we had $110.0 million outstanding and $190.0 million available under the senior unsecured revolving credit facility.

2013 Debt Refinancing

During February 2013, we entered into an amendment with our syndicated bank group whereby we extended and increased our existing $175.0 million senior unsecured term loan to $225.0 million for a period of five years, extended our existing $300.0 million senior unsecured line of credit for a period of four years and received a commitment for an additional $175.0 million senior unsecured term loan with a term of two years. We closed on the additional $175.0 million in March 2013, which was used to refinance a scheduled June 2013 maturity of $175.0 million of other senior unsecured debt.

Interest rate swap

During June 2013 certain of our consolidated investments entered into two pay-fixed, receive-floating interest rate swaps to hedge the variability of future cash flows attributable to changes in the 1 month LIBOR rates. The first pay-fixed, receive-floating swap has a notional amount of $6.2 million, an effective date of June 2013 and a maturity date of June 2023. The second pay-fixed, receive-floating swap has a notional amount of $1.0 million, an effective date of June 2013 and a maturity date of June 2023. These interest rates swaps effectively fix the interest rate on the related debt instruments at 4.72%. As of December 31, 2012, we did not have any hedges in place.

Debt Maturities

The following table sets forth the scheduled maturities of our debt and regularly scheduled principal amortization, excluding unamortized premiums, as of December 31, 2013 (in thousands):

Year	Senior Unsecured Notes	Mortgage Notes	Senior Unsecured Revolving Credit Facility	Total
2014	$	$ 10,927	$	$ 10,927
2015	40,000	49,982		89,982
2016	99,000	61,184		160,184
2017	51,000	11,768	39,000	101,768
2018	306,500	6,412		312,912
Thereafter	628,500	145,448		773,948

Total	$ 1,125,000	$ 285,721	$ 39,000	$ 1,449,721

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Contractual Obligations

The following table reflects our contractual obligations as of December 31, 2013, specifically our obligations under long-term debt agreements and operating and ground lease agreements (in thousands):

Contractual Obligations [1]	Total	Payments due by Period 2014	2015-2016	2017-2018	Thereafter
Scheduled long-term debt maturities, including interest[2]	$ 1,850,893	$ 77,355	$ 638,252	$ 240,373	$ 894,913
Operating lease commitments	2,713	941	1,608	164	
Ground lease commitments[3]	12,968	509	1,123	1,102	10,234
Total	$ 1,866,574	$ 78,805	$ 640,983	$ 241,639	$ 905,147

(1) From time-to-time in the normal course of our business, we enter into various contracts with third-parties that may obligate us to make payments, such as maintenance agreements at our properties. Such contracts, in the aggregate, do not represent material obligations, are typically short-term and cancellable within 90 days and are not included in the table above. Excluded from the total are our estimated construction costs to complete development projects of approximately $87.5 million, none of which is legally committed until work is completed

(2) Variable interest rate payments are estimated based on the LIBOR rate at December 31, 2013.

(3) Three of our buildings comprising 0.7 million square feet reside on 38 acres of land which is leased from an airport authority.

Off-Balance Sheet Arrangements

As of December 31, 2013 and 2012, we had no off-balance sheet arrangements, other than those disclosed under contractual obligations, that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors, other than items discussed herein.

As of December 31, 2013, there are no lines of credit or side agreements related to, or between, our unconsolidated joint ventures and us, and there are no other derivative financial instruments between our unconsolidated joint ventures and us. In addition, we believe we have no material exposure to financial guarantees.

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As of December 31, 2013, our proportionate share of the total construction loans of our unconsolidated development joint ventures, including undrawn amounts, was $36.8 million all of which is scheduled to mature by the end of 2017. Our proportionate share of the total construction loans of our unconsolidated development joint ventures includes 50% of the construction loans associated with the SCLA joint venture which are non-recourse to the venture partners. We may elect to fund additional capital to a joint venture through equity contributions (generally on a basis proportionate to our ownership interests), advances or partner loans, although such fundings are not required contractually or otherwise. As of December 31, 2013, our proportionate share of non-recourse debt associated with unconsolidated joint ventures is $44.4 million. The maturities of our proportionate share of the non-recourse debt are summarized in the table below (in thousands):

Year		**DCT s Proportionate Share of Secured Non-Recourse Debt in Unconsolidated Joint Ventures**
2014	$	4,513
2015		2,223
2016		830
2017		36,805
2018		
Thereafter		
Total	$	44,371

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to losses resulting from changes in market prices such as interest rates, foreign currency exchange rates and rental rates. Our future earnings and cash flows are dependent upon prevailing market rates. Accordingly, we manage our market risk by matching projected cash inflows from operating, investing and financing activities with projected cash outflows for debt service, acquisitions, capital expenditures, distributions to stockholders and OP unitholders, and other cash requirements. The majority of our outstanding debt has fixed interest rates, which minimizes the risk of fluctuating interest rates.

Interest Rate Risk

Our exposure to market risk includes interest rate fluctuations in connection with our senior unsecured revolving credit facility and other variable rate borrowings and forecasted fixed rate debt issuances, including refinancing of existing fixed rate debt. Interest rate risk may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control. To manage interest rate risk for variable rate debt and issuances of fixed rate debt, in the past we have primarily used treasury locks and forward-starting swaps as part of our cash flow hedging strategy. These derivatives are designed to mitigate the risk of future interest rate increases by providing a fixed interest rate for a limited, pre-determined period of time. We do not use derivatives for trading or speculative purposes and only enter into contracts with major financial institutions based on their credit rating and other factors.

During June 2013 certain of our consolidated investments entered into two pay-fixed, receive-floating interest rate swaps to hedge the variability of future cash flows attributable to changes in the 1 month LIBOR rates. The first pay-fixed, receive-floating swap has a notional amount of $6.2 million, an effective date of June 2013 and a maturity date of June 2023. The second pay-fixed, receive-floating swap has a notional amount of $1.0 million, an effective date of June 2013 and a maturity date of June 2023. These interest rates swaps effectively fix the interest rate on the related debt instruments at 4.72%. As of December 31, 2012, we did not have any hedges in place.

Our variable rate debt is subject to risk based upon prevailing market interest rates. As of December 31, 2013, we had approximately $264.0 million of variable rate debt outstanding indexed to LIBOR rates. If the LIBOR rates relevant to our variable rate debt were to increase 10%, we estimate that our interest expense during the year ended December 31, 2013 would increase by approximately $0.1 million based on our average outstanding floating-rate debt during the year ended December 31, 2013. Additionally, if weighted average interest rates on our fixed rate debt were to have increased by 100 basis points due to refinancing, interest expense would have increased by approximately $11.1 million during the year ended December 31, 2013.

As of December 31, 2013, the estimated fair value of our debt was approximately $1.5 billion based on our estimate of the then-current market interest rates.

BUSINESS AND PROPERTIES

Business Overview

Our portfolio primarily consists of high-quality, bulk distribution warehouses and light industrial properties. The properties we target for acquisition or development are generally characterized by convenient access to major transportation arteries, proximity to densely populated markets and quality design standards that allow our customers efficient and flexible use of the buildings. In the future, we intend to continue focusing on properties that exhibit these characteristics in select U.S. markets where we believe we can achieve favorable returns and leverage our local expertise. We seek to maximize growth in earnings and shareholder value within the context of overall economic conditions, primarily through increasing rents and operating income at existing properties and acquiring and developing high-quality properties in major distribution markets. In addition, we will recycle our capital by disposing of non-strategic, lower growth assets and reinvesting the proceeds into newly acquired or developed assets where we believe the returns will be more favorable over time.

As of December 31, 2013, we owned interests in approximately 75.5 million square feet of properties leased to approximately 900 customers, including:

- 62.1 million square feet comprising 396 consolidated operating properties, including 0.2 million square feet comprising one consolidated building classified as held for sale, which were 93.3% occupied;

- 12.3 million square feet comprising 38 unconsolidated properties which were 94.1% occupied and operated on behalf of four institutional capital management partners;

- 0.2 million square feet comprising two consolidated properties under redevelopment; and

- 0.9 million square feet comprising two consolidated buildings which are shell-complete and in lease-up and eight land sites under construction.

As of December 31, 2013, our total consolidated portfolio consisted of 400 properties with an average size of 158,000 square feet and an average age of 21 years.

During the year ended December 31, 2013, we acquired 38 buildings. These properties were acquired for a total purchase price of $359.5 million.

During the year ended December 31, 2013, we sold 51 operating properties to third-parties for gross proceeds of approximately $265.8 million. We recognized gains of approximately $33.6 million on the disposition of 36 operating properties and recognized an impairment loss of approximately $13.3 million on the disposition of a portfolio of 15 properties in Dallas.

We have a broadly diversified customer base. As of December 31, 2013, our consolidated properties had leases with approximately 900 customers with no single customer accounting for more than 2.3% of the total annualized base rent of our properties. Our ten largest customers occupy approximately 10.0% of our consolidated properties based on square footage and account for approximately 12.1% of the annualized base rent of these properties. We believe that our broad national presence in the top U.S. distribution markets provides geographic diversity and is attractive to users of distribution space which allows us to build strong relationships with our customers. Furthermore, we are actively engaged in meeting our customers expansion and relocation requirements.

The principal executive offices of DCT Industrial Operating Partnership LP, DCT Industrial Trust Inc., and the subsidiary guarantors are located at 518 Seventeenth Street, Suite 800, Denver, Colorado 80202; our telephone number is (303) 597-2400. We also maintain regional offices in Atlanta, Georgia; Baltimore, Maryland; Chicago, Illinois; Cincinnati, Ohio; Dallas, Texas; Houston, Texas; Paramus, New Jersey; Newport Beach, California; Emeryville, California; Orlando, Florida; and Seattle, Washington. Our website address is www.dctindustrial.com.

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Business Strategy

Our primary business objectives are to maximize long-term growth in Funds From Operations, or FFO per unit (see definition in Selected Consolidated Financial Data), the net asset value of our portfolio and total unitholder return. The strategies we intend to execute to achieve these objectives include:

Maximizing Cash Flows From Existing Properties. We intend to maximize the cash flows from our existing properties by active leasing and management, maintaining strong customer relationships, controlling operating expenses and physically maintaining the quality of our properties. Renewing tenants, leasing space and effectively managing expenses are critical to achieving our objectives and are a primary focus of our local real estate teams.

Profitably Acquiring Properties. We seek to acquire properties that meet our asset, location and financial criteria at prices and potential returns which we believe are attractive. We have selected certain markets and sub-markets where we focus our efforts on identifying buildings to acquire.

Selectively Pursuing New Development. To meet current tenant demand, we continue to develop new assets in select markets where rents and vacancy levels demonstrate the need for new construction. During 2013, we acquired five land parcels for future development totaling approximately 128.6 acres. Also during 2013, we stabilized six development buildings totaling 1.6 million square feet and have seven buildings under construction, which are partially leased, totaling approximately 2.7 million square feet. As of December 31, 2013, we also had one build-to-suit for sale building under contract. The buildings under construction, as well as the build-to-suit for sale building, are all projected to be completed in 2014.

Recycling Capital. We intend to selectively dispose of non-strategic assets and redeploy the proceeds into higher growth acquisition and development opportunities. In 2013, we sold $265.8 million of non-strategic assets for deployment into higher growth assets. This includes the divestiture of the entire portfolio located in Mexico.

Conservatively Managing Our Balance Sheet. We plan to maintain financial metrics, including leverage and coverage ratios on a basis consistent with our investment grade ratings. In addition, we believe that a conservatively managed balance sheet provides for a competitive long-term cost of capital.

Our Competitive Strengths

We believe that we distinguish ourselves from other owners, operators, acquirers and developers of industrial properties through the following competitive strengths:

High-Quality Industrial Property Portfolio. Our portfolio of industrial properties primarily consists of high-quality bulk distribution facilities in high volume leasing markets specifically designed to meet the warehousing needs of local, regional and national companies. The majority of our properties are specifically designed for use by major distribution users and are readily divisible to take advantage of re-tenanting opportunities. We believe that our concentration of high-quality bulk distribution properties provides us with a competitive advantage in attracting and retaining distribution users across the markets in which we operate.

Experienced and Committed Management Team. Our executive management team collectively has an average of nearly 28 years commercial real estate experience and 17 years of industrial real estate experience. Additionally, our executive management team has extensive public company operating experience.

Strong Operating Platform. We have a team of 86 experienced transaction and property management professionals working in 12 regional offices to maximize market opportunities through local expertise, presence and relationships. We believe successfully meeting the needs of our customers and anticipating and responding to market opportunities will result in achieving superior returns from our properties as well as through the sourcing of new acquisitions and development opportunities.

Proven Acquisition and Disposition Capabilities. We have extensive experience in acquiring industrial real estate, including both smaller transactions as well as larger portfolio acquisitions. Our local market teams are an important advantage in sourcing potential marketed as well as off-market transactions. The average size of our acquisitions since 2010 was $14.0 million, demonstrating our ability to access a significant pipeline of smaller acquisitions. Further, consistent with our capital recycling strategy, we have disposed of a cumulative $1.4 billion of real estate investments since inception.

Extensive Development and Redevelopment Expertise. Our local market teams have significant experience in all facets of value-add activities including development and redevelopment capabilities. We believe our local teams knowledge of our focus markets and their relationships with key market participants, including land owners, users and brokers, combined with the technical expertise required to successfully execute on complex transactions, provides us with an excellent platform to create value while appropriately managing risk.

Strong Industry Relationships. We believe that our extensive network of industry relationships with the brokerage and investor communities will allow us to execute successfully our acquisition, development and capital recycling strategies. These relationships augment our ability to source acquisitions in off-market transactions outside of competitive marketing processes, capitalize on development opportunities and capture repeat business and transaction activity. Our strong relationships with local and nationally focused brokers aids in attracting and retaining customers.

Capital Structure. Our capital structure provides us with sufficient financial flexibility and capacity to fund future growth. In addition to successfully raising $258.6 million in net proceeds from equity offerings in 2013, the Company received investment grade ratings from Moody s Investors Service and Standard & Poor s Rating Services and issued $275.0 million (aggregate principal amount) of 10-year senior unsecured notes at 99.038% of face value for net proceeds of approximately $269.6 million after expenses. The notes have a fixed interest rate of 4.5%. As of December 31, 2013 we had $261.0 million available under our senior unsecured revolving credit facility and 334 of our consolidated operating properties with a gross book value of $2.8 billion were unencumbered.

Operating Segments

Our operating results used to assess performance are aggregated into three reportable segments, East, Central and West, which are based on the geographical locations organized into markets by where our management and operating teams conduct and monitor business. We consider rental revenues and property net operating income aggregated by segment to be the appropriate way to analyze performance. See additional information in Properties and Management s Discussion and Analysis of Financial Condition and Results of Operations and Notes to Consolidated Financial Statements, Note 14 Segment Information.

Competition

The market for the leasing of industrial real estate is highly competitive. We experience competition for customers from other existing assets in proximity to our buildings as well as from proposed new developments. Institutional investors, other REITs and local real estate operators generally own such properties; however no single competitor or small group of competitors is dominant in our current markets. However, as a result of competition, we may have to provide free rental periods, incur charges for tenant improvements or offer other inducements, all of which may have an adverse impact on our results of operations.

The market for the acquisition of industrial real estate is also very competitive. We compete for real property investments with other REITs and institutional investors such as pension funds and their advisors, private real estate investment funds, insurance company investment accounts, private investment companies, individuals and other entities engaged in real estate investment activities, some of which have greater financial resources than we do.

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Environmental Matters

We are exposed to various environmental risks that may result in unanticipated losses and affect our operating results and financial condition. Either the previous owners or we subjected a majority of the properties we have acquired, including land, to environmental reviews. While some of these assessments have led to further investigation and sampling, none of the environmental assessments has revealed an environmental liability that we believe would have a material adverse effect on our business, financial condition or results of operations. See further additional information in Risk Factors.

Employees

As of December 31, 2013, we had 136 full-time employees.

Properties

Geographic Distribution

The following table describes the geographic diversification of our consolidated properties as of December 31, 2013:

Markets	Number of Buildings	Percent Owned(1)	Square Feet (in thousands)	Occupancy Percentage(2)	Annualized Base Rent(3)(6) (in thousands)	Percent of Total Annualized Base Rent
CONSOLIDATED OPERATING:						
Atlanta	41	100.0%	6,592	92.0%	$ 19,496	8.4%
Baltimore/Washington D.C.	19	100.0%	2,236	88.9%	11,607	5.0%
Charlotte	1	100.0%	472	100.0%	1,604	0.7%
Memphis	8	100.0%	3,712	83.4%	8,006	3.5%
Miami	10	100.0%	1,362	99.0%	9,393	4.1%
Nashville	4	100.0%	2,064	96.5%	5,304	2.3%
New Jersey	14	100.0%	1,926	94.4%	9,718	4.2%
Orlando	20	100.0%	1,864	83.1%	6,169	2.7%
Pennsylvania	14	100.0%	2,828	91.0%	8,929	3.9%
East Segment Subtotal	131	100.0%	23,056	90.7%	80,226	34.8%
Chicago	34	100.0%	6,742	95.4%	22,005	9.5%
Cincinnati	31	100.0%	3,782	93.8%	12,040	5.2%
Columbus	12	100.0%	3,480	87.0%	7,590	3.3%
Dallas	34	100.0%	5,160	97.9%	16,670	7.2%
Houston	43	100.0%	3,256	99.1%	18,969	8.2%
Indianapolis	7	100.0%	2,299	96.4%	7,499	3.2%
Louisville	3	100.0%	1,109	100.0%	3,595	1.6%

Central Segment Subtotal	164	100.0%	25,828	95.3%	88,368	38.2%
Denver	2	100.0%	278	96.5%	1,259	0.5%
Northern California	27	100.0%	3,171	93.1%	16,502	7.1%
Phoenix	17	100.0%	2,025	93.1%	7,727	3.3%
Seattle	12	100.0%	1,599	94.4%	7,827	3.4%
Southern California	42	92.9%	5,939	94.8%	28,352	12.2%
West Segment Subtotal	100	96.8%	13,012	94.1%	61,667	26.5%
Total/weighted average operating properties	395	99.3%	61,896	93.3%	230,261	99.5%

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Markets	Number of Buildings	Percent Owned[1]	Square Feet (in thousands)	Occupancy Percentage[2]	Annualized Base Rent[3][6] (in thousands)	Percent of Total Annualized Base Rent
REDEVELOPMENT PROPERTIES:						
New Jersey	1	100.0%	107	0.0%		0.0%
Phoenix	1	100.0%	76	0.0%		0.0%
Total/weighted average redevelopment properties	2	100.0%	183	0.0%		0.0%
DEVELOPMENT PROPERTIES:						
Chicago	1	100.0%	604	0.0%		0.0%
Houston	1	100.0%	267	0.0%		0.0%
Total/weighted average development properties	2	100.0%	871	0.0%		0.0%
HELD FOR SALE PROPERTIES:						
Chicago	1	100.0%	222	100.0%	1,102	0.5%
Total/weighted average held for sale	1	100.0%	222	100.0%	1,102	0.5%
Total/weighted average consolidated properties	400	99.3%	63,172	91.8%	$ 231,363[4]	100.0%

(See footnote definitions on next page)

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The following table describes the geographic diversification of our investments in unconsolidated properties as of December 31, 2013:

Markets	Number of Buildings	Percent Owned[1]	Square Feet (in thousands)	Occupancy Percentage[2]	Annualized Base Rent[3] (in thousands)	Percent of Total Annualized Base Rent
UNCONSOLIDATED OPERATING PROPERTIES:						
IDI (Chicago, Nashville, Savannah)	3	50.0%	1,423	53.0%	$ 1,631	4.1%
Southern California Logistics Airport[5]	6	50.0%	2,160	99.6%	7,871	20.0%
Total/weighted average unconsolidated operating properties	9	50.0%	3,583	81.1%	9,502	24.1%
OPERATING PROPERTIES IN CO-INVESTMENT VENTURES:						
Atlanta	1	3.6%	491	100.0%	1,753	4.4%
Chicago	2	20.0%	1,033	100.0%	3,238	8.2%
Cincinnati	3	13.6%	892	100.0%	2,977	7.5%
Columbus	2	5.7%	451	100.0%	1,356	3.4%
Dallas	3	15.3%	1,186	100.0%	3,622	9.1%
Denver	5	20.0%	772	95.9%	3,654	9.2%
Indianapolis	1	11.4%	475	96.2%	1,915	4.8%
Louisville	4	10.0%	736	100.0%	1,411	3.6%
Minneapolis	3	3.6%	472	100.0%	2,187	5.5%
Nashville	2	20.0%	1,020	100.0%	2,750	7.0%
Orlando	2	20.0%	696	100.0%	3,265	8.2%
Pennsylvania	1	11.4%	502	100.0%	1,990	5.0%
Total/weighted average co-investment operating properties	29	14.3%	8,726	99.4%	30,118	75.9%
Total/weighted average unconsolidated properties	38	24.7%	12,309	94.1%	$ 39,620	100.0%

(1) Percent owned is based on ownership weighted by square footage, if applicable.

(2) Based on leases commenced as of December 31, 2013.

(3) Annualized base rent is calculated as monthly contractual base rent (cash basis) per the terms of the lease in effect, as of December 31, 2013, multiplied by 12.

(4) Excludes total annualized base rent associated with tenants currently in free rent periods of $9.2 million based on the first month s cash base rent.

(5) Although we contributed 100% of the initial cash equity capital required by the venture, after return of certain preferential distributions on capital invested, profits and losses are generally split 50/50.

(6)

Excludes total annualized base rent of $1.7 million from one non-industrial property acquired for future development.

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Lease Expirations

Our industrial properties are typically leased to customers for terms ranging from 3 to 10 years with a weighted average remaining term of approximately 3.3 years as of December 31, 2013. Following is a schedule of expiring leases for our consolidated properties by square feet and by annualized minimum base rent as of December 31, 2013, assuming no exercise of lease renewal:

Year	Number of Leases Expiring	Square Feet Related to Expiring Leases	Percentage of Total Square Feet	Annualized Base Rent of Expiring Leases[(1)]	Percentage of Total Annualized Base Rent
		(in thousands)		(in thousands)	
2014[(2)]	178	8,440	14.6%	$ 35,217	13.4%
2015	162	10,199	17.6%	42,062	16.0%
2016	200	10,110	17.4%	44,166	16.9%
2017	143	8,223	14.2%	34,223	13.1%
2018	107	6,621	11.4%	30,394	11.6%
Thereafter	157	14,392	24.8%	75,932	29.0%
Total occupied	947	57,985	100.0%	$ 261,994	100.0%
Available or leased but not occupied		5,187			
Total consolidated properties		63,172			

(1) Includes contractual rent changes.
(2) Includes leases that are on month-to-month terms.

Customer Diversification

As of December 31, 2013, there were no customers that occupied more than 2.3% of our properties based on annualized base rent. The following table reflects our ten largest customers, based on annualized base rent as of December 31, 2013. These ten customers occupy a combined 6.3 million square feet or 10.0% of our consolidated properties.

Customer	Percentage of Annualized Base Rent
Schenker, Inc.	2.3%
Deutsche Post World Net (DHL & Excel)	1.5%
The Clorox Company	1.3%
United Stationers Supply Company	1.1%
The Glidden Company	1.1%

YRC, LLC	1.1%
Bridgestone Corporation	1.0%
Ozburn-Hessey Logistics, L.L.C	0.9%
Genco I, Inc.	0.9%
Iron Mountain	0.9%
Total	12.1%

Although base rent is supported by long-term lease contracts, customers who file bankruptcy generally have the legal right to reject any or all of their leases. In the event that a customer with a significant number of leases in our properties files bankruptcy and cancels its leases, we could experience a reduction in our revenues and an increase in allowance for doubtful accounts receivable.

We continuously monitor the financial condition of our customers. We communicate often with those customers who have been late on payments or filed bankruptcy. We are not currently aware of any significant financial difficulties of any tenants that would individually cause a material reduction in our revenues, and no customer represents more than 5% of our annual base rent.

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Industry Diversification

The table below illustrates the diversification of our consolidated portfolio by the industry classification of our customers based upon their NAICS code as of December 31, 2013 (dollar amounts in thousands):

	Number of Leases	Annualized Base Rent[1]	Percentage of Total Annualized Base Rent	Occupied Square Feet (in thousands)	Percentage of Total Occupied Square Feet
Manufacturing	250	$ 71,230	30.8%	17,138	29.6%
Wholesale Trade	229	48,733	21.1%	12,741	22.0%
Transportation and Warehousing	156	45,548	19.7%	12,726	21.9%
Retail Trade	92	22,992	10.0%	6,667	11.5%
Administrative Support and Waste Management Services	43	9,268	4.0%	2,337	4.0%
Professional, Scientific and Technical Services	55	10,754	4.6%	1,955	3.3%
Media and Information	16	3,963	1.7%	567	1.0%
Rental Companies	15	3,498	1.5%	917	1.6%
Health Care and Social Assistance	11	4,168	1.8%	629	1.1%
Other	80	11,209	4.8%	2,308	4.0%
Total	947	$ 231,363	100.0%	57,985	100.0%

(1) Annualized base rent is calculated as monthly contractual base rent (cash basis) per the terms of the lease in effect, as of December 31, 2013, multiplied by 12.

Indebtedness

As of December 31, 2013, 63 of our 400 consolidated properties, with a combined gross book value of $674.2 million were encumbered by mortgage indebtedness totaling $285.7 million (excluding net premiums). See Notes to Consolidated Financial Statements, Note 5 Outstanding Indebtedness and the accompanying Schedule III beginning on page F-45 for additional information.

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DIRECTORS AND EXECUTIVE OFFICERS

This section reflects information with respect to the directors and executive officers of DCT. Because DCTOP is managed by DCT, and DCT conducts substantially all of its operations through DCTOP, DCTOP refers to DCT s executive officers as its executive officers, and although as a partnership DCTOP does not have a board of directors, it refers to DCT s Board of Directors as its Board of Directors.

Board of Directors

Below is information with respect to our Directors.

Thomas G. Wattles. Director since 2003

Mr. Wattles, age 62, is a cofounder of the Company and has been our Executive Chairman since 2003. Mr. Wattles also served as our Chief Investment Officer from March 2003 to September 2005. Mr. Wattles was a principal of both Dividend Capital Group LLC and Black Creek Capital, LLC, each a Denver-based real estate investment firm, from February 2003 until June 2008. From March 1997 to May 1998, Mr. Wattles served as Chairman of ProLogis, and served as Co-Chairman and Chief Investment Officer from November 1993 to March 1997. Mr. Wattles was a Managing Director of Security Capital Group Incorporated and served in various capacities including Chief Investment Officer from January 1991 to December 2002. Mr. Wattles is currently a director of (i) Regency Centers Corporation, chairing its investment committee and serving on its audit committee; and (ii) Columbia Property Trust, serving on its audit and operations committees. Mr. Wattles holds a Bachelor s degree and an M.B.A. degree from Stanford University.

Philip L. Hawkins. Director since 2006

Mr. Hawkins, age 58, has been our Chief Executive Officer since October 2006. Mr. Hawkins was the President, Chief Operating Officer and a director of CarrAmerica Realty Corporation, where he had been employed from 1996 until July 2006. CarrAmerica was a public REIT focused on the acquisition, development, ownership and operation of office properties in select markets across the United States and was acquired by a fund managed by The Blackstone Group in July 2006. Prior to joining CarrAmerica, Mr. Hawkins spent approximately 13 years with LaSalle Partners (now Jones Lang LaSalle), a real estate services company where he was a director and held various positions involving real estate investment, development, leasing and management. Mr. Hawkins serves as a director of Corporate Office Properties Trust, a publicly traded office REIT that focuses primarily on serving the specialized requirements of U.S. government agencies and defense contractors. He is a member of the National Association of Real Estate Investment Trusts (NAREIT) and the Urban Land Institute. He is a trustee of Hamilton College and served as a director of SBA Communications Corporation, a publicly traded wireless tower owner and operator, from August 2004 to May 2009. He holds an M.B.A. from the University of Chicago Graduate School of Business and a Bachelor of Arts degree from Hamilton College.

Marilyn A. Alexander. Director since 2011

Ms. Alexander, age 62, has over thirty years of experience in a range of industries, including real estate, hospitality and management consulting. Ms. Alexander has been a consultant since 2003, currently serving as principal of Alexander & Friedman LLC, a management consulting company that she founded. She previously served in executive roles in finance, brand management, marketing and revenue management at The Walt Disney Company and Marriott Corporation. Since 2008, she has served as a director of Tutor Perini Corporation, a publicly traded leading civil and building construction company offering diversified general contracting and design/build services to private clients and public agencies in the U.S. and abroad. She is also currently a director of Torchmark Corporation. From November 2004 until its sale in February 2007, Ms. Alexander served as a trustee of Equity Office Properties Trust. Ms. Alexander also served as a director of New Century Financial

Corporation, a formerly publicly traded REIT, from May 2005 to April 2007. She also formerly was a trustee of PIMCO Variable Insurance Trust, PIMCO Commercial Securities Trust, Inc. and PIMCO Strategic Global Government Fund, Inc. from October 2006 to August 2007. Ms. Alexander earned a Bachelor s degree at Georgetown University in Philosophy and an MBA at the Wharton Graduate School of the University of Pennsylvania; she is a licensed CPA in the Commonwealth of Virginia.

Thomas F. August. Director since 2006

Mr. August, age 65, has served as President and Chief Executive Officer of Equity Office Properties Trust since July 2010 and served from October 2009 to July 2010 as its Chairman. Equity Office Properties Trust is currently a private company controlled by The Blackstone Group and is one of the largest owners and managers of office properties in the United States. From February 2008 to August 2009 he served as the Executive Vice President and Chief Operating Officer of Behringer Harvard REIT I, Inc., and from May 2009 through August 2009 he also served as Chief Executive Officer of Behringer Harvard REIT I, Inc. He served as a trustee of Brandywine Realty Trust, a publicly traded REIT, from January 2006 through February 2008. From October 1999 to January 2006, Mr. August had served as President, Chief Executive Officer and a trustee of Prentiss Properties Trust. Prior to that time, he was President and Chief Operating Officer of Prentiss since Prentiss initial public offering in October 1996. From 1992 to 1996, Mr. August served as President and Chief Operating Officer of a Prentiss affiliate, Prentiss Properties Limited, Inc. From 1987 to 1992, Mr. August served as Executive Vice President and Chief Financial Officer of Prentiss predecessor company. From 1985 to 1987, Mr. August served in executive capacities with Cadillac Fairview Urban Development, Inc. Prior to joining Cadillac Fairview Urban Development in 1985, Mr. August was Senior Vice President of Finance for Oxford Properties, Inc., in Denver, Colorado, an affiliate of a privately-held Canadian real estate firm. Previously, he was a Vice President of Citibank, responsible for real estate lending activities in the Midwest. Mr. August has more than 40 years of experience as a senior executive in the real estate industry, including prior experience as the chief executive officer of a publicly traded REIT. Mr. August holds a Bachelor s degree from Brandeis University and an M.B.A. degree from Boston University.

John S. Gates, Jr. Director since 2006

Mr. Gates, age 60, has served since August 2010 as the Chairman of the Board of the Regional Transportation Authority of Metropolitan Chicago which is responsible for all passenger transit operations in the metropolitan Chicago area. Mr. Gates has also served since January 1, 2005 as the Chairman and Chief Executive Officer of PortaeCo, a private investment and asset management company. In 1984, Mr. Gates co-founded CenterPoint Properties Trust and served as Co-Chairman and Chief Executive Officer for 22 years. During that period, CenterPoint became one of the largest private property owners in the Metropolitan Chicago Region and the nation s first publicly traded industrial property REIT. In March 2006, CenterPoint was acquired by the California Public Employees Retirement System and Jones Lang LaSalle for approximately $3.5 billion. In 1979, Mr. Gates joined CB Richard Ellis, and in 1981 co-founded the Chicago office of Jones Lang Wootton (now Jones Lang LaSalle), a global commercial property investment firm. Mr. Gates is a director of The Davis Funds and numerous not-for- profit institutions. Mr. Gates has more than 30 years of experience in the industrial real estate industry. Mr. Gates graduated from Trinity College with a Bachelor s degree in Economics.

Raymond B. Greer. Director since 2010

Mr. Greer, age 51, has over thirty years of logistics and transportation experience. Mr. Greer has served since February 2011 as the President of BNSF Logistics, LLC, which is an international third party logistics provider and a wholly-owned subsidiary of Burlington Northern Santa Fe, LLC, a Berkshire Hathaway company. From March 2005 to January 2010, Mr. Greer served as President and Chief Executive Officer of Greatwide Logistics Services, a non-asset based logistics and transportation services company. Greatwide and its senior lenders filed a Chapter 11 bankruptcy filing in October 2008 to restructure Greatwide s debt and permit a purchase of the business. From December 2002 to March 2005, Mr. Greer served as President and Chief Executive Officer for

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Newgistics, Inc., a reverse logistics company. Mr. Greer served as President of Global Network Solutions and Services for i2 Technologies, Inc., a supply chain management software and services company, from February 2002 to November 2002. Mr. Greer has also held senior management positions for Ryder and FedEx Corporation. From June 2005 to April 2007, Mr. Greer served as a director of Kitty Hawk, Inc., a publicly traded air cargo company. Mr. Greer received a Bachelor of Science in Mathematics from the University of Utah and an Executive Masters in Information Systems & Telecommunications from Christian Brothers University.

Tripp H. Hardin. Director since 2002

Mr. Hardin, age 52, is Senior Vice President of Investments with CBRE, Inc., which is the world s largest real estate services firm. Prior to joining CBRE in 2002, Mr. Hardin was a principal of Trammell Crow Krombach Partners and was associated with them or their predecessor company since 1986. He has over 28 years of experience in the commercial real estate industry, focusing primarily on the sale and leasing of industrial and office properties. He also has extensive experience in real estate investment and build-to-suit transactions. Mr. Hardin graduated from Stanford University with a Bachelor of Science degree in Industrial Engineering.

John C. O Keeffe. Director since 2002

Mr. O Keeffe, age 54, has been active in the construction industry since 1983 and has been associated with Wm. Blanchard Co., a construction management firm located in Springfield, NJ, since 1987. He has served in a variety of capacities at the firm, including estimating, contract negotiation and contract management, contractor management, project management and for the past 10 years, in an executive capacity, managing a variety of large scale healthcare projects. Presently, Mr. O Keeffe serves as Vice President, Construction Operations for Wm. Blanchard Co. Mr. O Keeffe graduated from Denison University with a Bachelor of Arts degree.

Bruce L. Warwick. Director since 2005

Mr. Warwick, age 75, is Vice Chairman of Related Companies, a private real estate development firm. Mr. Warwick oversees the development of various real estate development projects, including the development of Hudson Yards, a 12 million square foot mixed-use project on the west side of Manhattan. He joined Related Companies in 1998 as President of Columbus Centre Developer LLC, the division of Related Companies charged with the development and construction of Time Warner Center in New York City. Prior to joining Related Companies in 1998, Mr. Warwick served as Vice Chairman of The Galbreath Company, overseeing development and management in the East Region. He has been in the development and construction business for over 45 years, developing properties in both Puerto Rico and in the Northeast United States. He received a Bachelor of Arts degree from Colgate University.

Executive Officers

Below is information with respect to our executive officers.

Jeffrey F. Phelan, age 53, has been President of our company since January 2013. Mr. Phelan previously served as National President of Development and Managing Director, West Region, from March 2010 until January 2013. Prior to joining our company, from November 2006 through March 2010, Mr. Phelan was a principal of Phelan Development Company, a privately held real estate company that Mr. Phelan founded in November 2006, headquartered in Southern California that developed and managed industrial, office and retail properties. Prior to founding Phelan Development, Mr. Phelan was a partner at Panattoni Development Company from 1994 to 2006 where he founded their operations in Southern California and developed over 20 million square feet of commercial real estate. Panattoni Development Company is a development company specializing in industrial, office and retail projects. Mr. Phelan received a Bachelor s degree in Business Administration with a concentration in Real Estate from California State University.

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Teresa L. Corral, age 50, has been our company s Executive Vice President of Investments and Portfolio Management since May 2011. Ms. Corral oversees our company s investment and disposition process as well as portfolio management of our balance sheet and joint venture assets. Prior to this role, Ms. Corral served as our company s Senior Vice President of Institutional Capital Management and Dispositions since 2006. Ms. Corral brings more than 26 years of experience in acquisitions, due diligence, and underwriting institutional and privately-held real estate to our company. Prior to joining our company in 2003, Ms. Corral served in various positions with Clayton, Williams, and Sherwood Inc., a private investment firm. She also worked for various affiliates of Clayton, Williams, and Sherwood Inc., including CWS Communities Trust, a private REIT. Ms. Corral received her Bachelor s degree in Business Administration and Economics from St. Mary s College of California.

Neil P. Doyle, age 44 has been our company s Managing Director, Central Region, since April 2012. He is responsible for all property operations, investments and development in the Central Region. Prior to joining our company in 2012, Mr. Doyle served in various positions at CenterPoint Properties Trust since 1997. Most recently, from February 2007 through June 2011, he served as Executive Vice President of Infrastructure and Transportation at CenterPoint Properties Trust with responsibility for the sourcing and execution of logistics-based industrial parks in key U.S. intermodal and port markets. Prior to this role, Mr. Doyle served as Senior Vice-President of Development at CenterPoint from July 2005 through January 2007. Mr. Doyle holds a Bachelor of Science degree in Civil Engineering from Marquette University.

Matthew T. Murphy, age 49, has been Chief Financial Officer of our company since September 2011. Mr. Murphy has been with our company or an affiliate since 2003, previously serving as interim Chief Financial Officer, Executive Vice President and Treasurer. Mr. Murphy has served as Treasurer of our company since October 2006 and, from May 2003 through October 2006, served as the Controller of Dividend Capital Advisors LLC, which was our external advisor at the time. From February 1998 until joining our former external advisor in May 2003, Mr. Murphy was a Vice President and Controller of Pritzker Residential, LLC, a privately-owned, fully-integrated multi-family real estate investment company. Prior to joining Pritzker, Mr. Murphy served in various positions with Security Capital Group and its affiliates, including Archstone-Smith Trust and ProLogis. Prior to joining Security Capital Group, in 1992, Mr. Murphy was a staff accountant with Coopers and Lybrand. Mr. Murphy served as a director of Versus Capital Multi-Manager Real Estate Income Fund LLC from July 2012 through August 2013. Mr. Murphy holds a Bachelor s degree in Accounting from Colorado State University.

Charla Rios, age 52, has been our company s Executive Vice President of Property Management since June 2011. Ms. Rios is responsible for planning, directing and managing our property management activities and leading our company s property management teams. Ms. Rios brings over 25 years of property management experience to our company. Prior to joining our company in 2011, Ms. Rios served as First Vice President and West Regional Property Manager of Prologis, Inc. for 16 years. Before joining Prologis, Inc., Ms. Rios was a Senior Property Manager with Trammell Crow Company in Phoenix, managing a portfolio for Pension Fund Advisors and institutional owners.

Michael J. Ruen, age 47, has been a Managing Director of our company since early 2007 and prior to that a Senior Vice President of our company since 2005. From February 2004 through October 2006, Mr. Ruen was an employee of Dividend Capital Advisors LLC, which was our external advisor at the time. Since the latter part of 2008, Mr. Ruen has overseen the Eastern Region of our company, responsible for all property operations, investments and development in that region. Prior to that time, Mr. Ruen was responsible for capital deployment in the Eastern United States and development. Prior to joining our former advisor in February 2004, he was employed for nine years in various positions with ProLogis. Before leaving ProLogis, Mr. Ruen had been a First Vice President and Market Officer with responsibility over development, acquisition and portfolio operations for the state of Tennessee. Prior to that, he had similar responsibilities for Denver, Birmingham and Chattanooga after managing the leasing and marketing activities for Atlanta. Prior to joining ProLogis, Mr. Ruen was with CB Richard Ellis-Atlanta and was responsible for various institutional account activities including general brokerage. He received his Bachelor of Sciences degree from the University of Alabama and an M.B.A. from Georgia State University.

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John G. Spiegleman, age 46, has been Executive Vice President and General Counsel of our company since May 2011. Mr. Spiegleman is responsible for all legal, risk management and compliance matters. Mr. Spiegleman brings more than 21 years of experience to our company. Prior to joining our company in 2011, Mr. Spiegleman served as a Senior Vice President and Assistant General Counsel of Aimco from January 2006 to April 2011. While at Aimco, Mr. Spiegleman managed the legal aspects for all its transactions. Prior to joining Aimco, Mr. Spiegleman was Senior Vice President of Miller Global Properties for seven years. While at Miller Global, a privately-held company that owns, develops, and operates office and hotel properties throughout the world, Mr. Spiegleman served in legal and business roles. Mr. Spiegleman received his Juris Doctor from the University of Colorado, School of Law and his Bachelor s degree in Economics from Denison University.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

We provide what we believe is a competitive total compensation package to our executive management team through a combination of base salary, annual cash incentive bonuses, long-term equity incentive compensation and broad-based benefits programs. This Compensation Discussion and Analysis explains our compensation objectives, policies and practices with respect to our Chief Executive Officer, our Chief Financial Officer and the other three most highly-compensated executive officers as of the end of 2013 as determined in accordance with applicable SEC rules (collectively referred to as our named executive officers or, in this Compensation Discussion and Analysis section, our executives). Our named executive officers are as follows: Philip L. Hawkins, Chief Executive Officer; Thomas G. Wattles, Executive Chairman of the Board; Jeffrey F. Phelan, President; Matthew T. Murphy, Chief Financial Officer and Treasurer; and Michael J. Ruen, Managing Director, East Region.

Objectives of Our Executive Compensation Programs

Our compensation programs for our executives are designed to achieve the following objectives:

- Attract and retain top contributors to ensure that we have high caliber executives;

- Create and maintain a performance-driven organization, by providing upside compensation opportunity for outstanding performance and downside compensation risk in the event of performance below expectations;

- Align the interests of our executives and stockholders by motivating executives to increase stockholder value along with the achievement of other key corporate goals and objectives and rewarding executives when stockholder value increases;

- Encourage teamwork and cooperation while recognizing individual contributions by linking variable compensation to company and individual performance based on position responsibilities and ability to influence financial and organizational results;

- Provide flexibility and allow for discretion in applying our compensation principles in order to appropriately reflect individual circumstances as well as changing business conditions and priorities;

- Motivate our executives to manage our business to meet and appropriately balance our short- and long-term objectives, and reward them for meeting these objectives; and

- Reinforce our entrepreneurial culture.

Peer Group Data

During 2012 and 2013, the compensation committee assessed and affirmed the independence of Frederic W. Cook & Co., Inc., or F.W. Cook, a nationally recognized consulting firm, and engaged it to be the compensation committee s independent executive compensation consultant and to conduct a competitive review of our executive compensation program. As part of F.W. Cook s engagement, the compensation committee directed F.W. Cook to, among other things, compare our executive compensation with competitive market compensation data for two different peer groups: an asset-based peer group consisting of seven public REITs with an industrial asset class focus; and a size-based REIT peer group consisting of 14 public REITs similar in size (as defined by equity market capitalization and enterprise value) to our company, but in varying asset classes. These two peer

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groups, which were developed by F.W. Cook in consultation with our management and subsequently approved by the compensation committee, were comprised of the following companies:

Asset-Based Peers	Size-Based Peers
Duke Realty Corporation	American Campus Communities, Inc.
EastGroup Properties, Inc.	Colonial Properties Trust
First Industrial Realty Trust, Inc.	Diamondrock Hospitality Company
First Potomac Realty Trust	EastGroup Properties, Inc.
Liberty Property Trust	Equity One, Inc.
PS Business Parks, Inc.	Extra Space Storage Inc.
STAG Industrial, Inc.	Healthcare Realty Trust Incorporated
	LaSalle Hotel Properties
	Lexington Realty Trust
	Medical Properties Trust, Inc.
	Post Properties, Inc.
	PS Business Parks, Inc.
	Sovran Self Storage, Inc.
	Sunstone Hotel Investors, Inc.

The peer group data presented included information regarding base salary, actual and target bonus amounts, total annual compensation, long-term equity and cash incentives and total compensation. F.W. Cook also presented the same categories of information for all industrial REITs and all REITs with an enterprise value between $1.0 billion and $3.0 billion that were included in the 2011 NAREIT Compensation and Benefits Survey. For each of these categories of information, F.W. Cook presented information comparing our compensation to the compensation paid by the companies in these peer groups at the 25^{th}, 50^{th} and 75^{th} percentiles for comparable positions.

For purposes of 2013 compensation, the compensation committee used this competitive market compensation data to gain a greater understanding of market practices in connection with establishing base salaries, target annual cash incentive bonus amounts and target values for annual grants of long-term equity incentive compensation, all of which were established in early 2013. The compensation committee did not target a single percentile or range of percentiles to be used consistently for all of our executives, but rather used this information in connection with a number of factors, including, among others, the individual experience and skills of, and expected contributions from, our executives, the difficulty that we would have in replacing each of our executives and current economic conditions.

Our Executive Compensation Programs

Our executive compensation primarily consists of base salary, annual cash incentive bonuses, long-term equity incentive compensation and broad-based benefits programs. Additionally, with the exception of Mr. Wattles, we have employment agreements with each of our executives that provide for payments and other benefits in connection with a termination of employment in certain circumstances or a change-in-control. Overall, we designed our executive compensation programs to achieve the objectives described above. In particular, consistent with the emphasis we place on maintaining a performance-driven organization and aligning the interests of our executives and stockholders, long-term equity incentive compensation constitutes a significant portion of our total executive compensation. We also structured our annual cash incentive bonuses and annual grants of long-term equity incentive compensation to be based on our actual performance compared to predetermined performance goals. In determining the mix of the different elements of executive compensation, we considered the mix being offered by comparable companies. We generally structured the mix of base salary, target annual cash incentive bonuses and target long-term equity incentive compensation to approximate the average mix for our peers, except that we placed a greater emphasis on long-term equity incentive compensation.

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For 2013, we generally kept the mix of the different elements of executive compensation consistent with the mix that we have had in prior years recognizing that each year, depending on actual performance during the year, the amount of cash incentive bonuses paid and long-term equity incentive compensation granted relative to base salary will fluctuate.

Each of the primary elements of our executive compensation is discussed in detail below, including a description of the particular element and how it fits into our overall executive compensation and a discussion of the amounts of compensation paid to our executives for 2013 under each of these elements. In the descriptions below, we highlight particular compensation objectives that are addressed by specific elements of our executive compensation program; however, it should be noted that we have designed our compensation programs to complement each other and collectively serve all of our executive compensation objectives described above. Accordingly, whether or not specifically mentioned below, we believe that, as a part of our overall executive compensation, each element, to a greater or lesser extent, serves each of our objectives.

At our 2013 annual meeting, a non-binding, advisory resolution approving the compensation paid to our named executive officers, as disclosed in our proxy statement for the 2013 annual meeting, including the Compensation Discussion and Analysis, compensation tables and narrative discussions, was approved by our stockholders, with more than 99% of the votes cast having been voted in favor of the proposal to approve such resolution. The compensation committee has considered the results of this vote and, as a result of the high percentage of votes cast in favor of this proposal, the compensation committee viewed these results as an indication of stockholders overall satisfaction with the manner in which we compensated our named executive officers in 2012. Accordingly, based in part on the results of this vote, the compensation committee generally has maintained the structure of our executive compensation programs that had been described in our proxy statement for the 2013 annual meeting.

2013 Total Annual Compensation

The following table sets forth the amounts of base salary, annual cash incentive bonus and annual long-term equity incentive compensation (based on the value approved) awarded by the compensation committee for each of our executives for 2013.

Name	Base Salary	Annual Bonus	Annual Equity[(1)]	Total
Philip L. Hawkins	$ 600,000	$ 768,000	$ 1,369,000	$ 2,737,000
Thomas G. Wattles	260,000	162,000	364,000	786,000
Jeffrey F. Phelan	400,000	412,000	557,000	1,369,000
Matthew T. Murphy	300,000	325,000	450,000	1,075,000
Michael J. Ruen	260,000	214,000	489,000	963,000

(1) Annual equity represents the value of the annual long-term equity incentive compensation approved by the compensation committee. All of the annual equity grants were made in the form of restricted stock or LTIP units, at the election of the executive. We valued the annual grants at $7.36 per share or unit, which was the closing stock price of our common stock on February 4, 2014, the date the awards were approved. With the exception of Mr. Wattles, each of these annual equity awards vests over four years with 25% vesting on each of the first four anniversaries of January 1, 2014, subject to continued employment with us through such date. Mr. Wattles equity award vests over four years with 25% vesting on each of the first four anniversaries of January 1, 2014, however,

vesting is not subject to continued employment with us through such date.

The foregoing table more accurately reflects the decisions of the compensation committee with respect to our executive officers compensation than the Summary Compensation Table below. This primarily results from the fact that, in order to link our annual long-term equity incentive compensation to our annual performance, the compensation committee typically grants our annual long-term equity incentive compensation for a particular

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year in January or February of the following year. Due to the rules governing the presentation of the Summary Compensation Table, we are required to present these grants as compensation for the year in which they were granted (as opposed to the year for which they were granted). As a result, for example, the Stock Awards granted in February 2013 for 2012 performance are required to be reported as 2013 compensation in the Summary Compensation Table. In addition, the foregoing table does not include the equity award granted to Mr. Phelan in connection with his promotion to President effective as of January 1, 2013, as this was a one-time award in connection with his promotion.

A detailed discussion of the base salary, annual cash incentive bonus and annual long-term equity incentive compensation paid or awarded to our executives for 2013 is contained below.

Base Salary

We pay our executives a base salary, which we review and determine annually, subject to the commitments we have made to our executives in their employment agreements. We believe that a competitive base salary is a necessary element of any compensation program that is designed to attract and retain talented and experienced executives. We also believe that attractive base salaries can motivate and reward executives for their overall performance. Although base salaries are established in part based on the individual experience, skills and expected contributions during the coming year of our executives and our executives performance during the prior year, we do not view base salaries as primarily serving our objective of paying for performance.

The following table sets forth the annual base salaries for our executives for 2013 and 2012:

Named Executive Officer	2013 Base Salary	2012 Base Salary	Percentage Change
Philip L. Hawkins	$ 600,000	$ 600,000	
Thomas G. Wattles	$ 260,000	$ 260,000	
Jeffrey F. Phelan	$ 400,000	$ 260,000	54%
Matthew T. Murphy	$ 300,000	$ 275,000	9%
Michael J. Ruen	$ 260,000	$ 260,000	

During 2013, we maintained base salaries at 2012 levels for Messrs. Hawkins, Wattles and Ruen. Effective January 2013, in connection with Mr. Phelan s promotion to President, we increased his base salary to the amount set forth in the table above. The increase in base salary for each of Messrs. Phelan and Murphy was based on a number of factors including the compensation committee s most recent review of competitive market compensation data and the base salaries of our other executive officers. Overall, base salaries for 2013 were based on the compensation committee s review of competitive market compensation data and its conclusion that, in most cases, the amount of the base salaries for our executives remain competitive.

In setting base salary, we also took into account the commitments that we have made to our executives in their employment agreements. Under the employment agreements that were in effect for 2013, minimum annual base salaries for these executives for 2013 were established based on the annual base salaries at the time the agreements were entered into as follows: Mr. Hawkins minimum base salary was $600,000 per year; Mr. Phelan s minimum base salary was $400,000 per year; Mr. Murphy s minimum base salary was $275,000 per year; and Mr. Ruen s minimum base salary was $260,000 per year. Annual base salary for each of Messrs. Hawkins, Phelan and Ruen for 2013 equaled the minimum base salaries in these employment agreements. We have not entered into an employment agreement with Mr. Wattles.

Annual Cash Incentive Bonuses

Our executives are eligible to receive annual cash incentive bonuses each year primarily based upon their performance. Our annual cash incentive bonuses are intended to reward our executives with currently paid compensation based on annual performance.

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2013 Target Bonuses

Similar to base salary, the employment agreements that we entered into with our executives provide for minimum target annual cash incentive bonuses. These agreements provided for the following minimum target annual cash incentive bonuses for 2013: Mr. Hawkins 100% of base salary; Mr. Phelan $300,000; Mr. Murphy $250,000; and Mr. Ruen $200,000. The commitments in these employment agreements related to minimum target annual cash incentive bonuses, and we have discretion to establish the criteria that must be met for the annual cash incentive bonuses to be paid and may grant annual cash incentive bonuses in amounts above or below the target level based on our assessment of performance.

In February 2013, we established target annual cash incentive bonuses for each of our executives. Similar to base salary, except for Mr. Phelan, we maintained the levels of our executives target annual cash incentive bonuses for 2013 at 2012 levels. In connection with Mr. Phelan s promotion to President, we increased his minimum target. Mr. Phelan s increased target was based on a number of factors including the compensation committee s most recent review of competitive market compensation data and the targets established for our other executive officers. For 2013, our decisions regarding the amount of the target annual cash incentive bonuses were also based on the compensation committee s analysis of competitive market compensation data and its conclusion that the amount of the target annual cash incentive bonuses for our executives did not need to increase in order to remain competitive.

The following table sets forth the target annual cash incentive bonuses for each of our executives for 2013 and 2012:

Named Executive Officer	2013 Target Bonus	2012 Target Bonus	Percentage Change
Philip L. Hawkins	$ 600,000	$ 600,000	
Thomas G. Wattles	$ 200,000	$ 200,000	
Jeffrey F. Phelan	$ 300,000	$ 200,000	50%
Matthew T. Murphy	$ 250,000	$ 250,000	
Michael J. Ruen	$ 200,000	$ 200,000	

2013 Bonus Objectives

For 2013, consistent with 2012, a substantial majority of each executive s target annual cash incentive bonus was linked in a formulaic manner to the achievement of specific, objectively measurable goals, with the remainder based on each executive s achievement of more subjective goals, subject, in each case, to the compensation committee s ability to exercise negative discretion to award executives annual bonuses that are less than what would have been earned based on the formulaic application of the predetermined objectives.

The table set forth below describes the objectives that we established for each of our executives and the percentage of that executive s annual cash incentive bonus that was linked to the achievement of each objective.

Objectives	Hawkins	Wattles	Phelan	Murphy	Ruen
Total net operating income	30.0%		15.0%	30.0%	15.0%
Regional net operating income			15.0%		25.0%
Total capital deployment	25.0%	30.0%	30.0%	25.0%	20.0%
Regional/national capital deployment		70.0%	20.0%		20.0%
Asset sales/equity raises	25.0%			25.0%	

Individual/Subjective	20.0%		20.0%	20.0%	20.0%
Total	100%	100%	100%	100%	100%

We selected these specific objectives because (i) net operating income is one of the most significant financial measures that we report to investors and use to evaluate our ongoing performance, (ii) the deployment

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of capital through the completion of acquisitions and commencement of development projects, consistent with our investment criteria, during 2013 was one of our key strategic goals for the year and (iii) our assets sales and equity raises were expected to provide an important source of funding to be used to meet our capital deployment goals.

For each of these objectives, in February 2013, we established five different levels of performance pursuant to which executives could earn from 0-200% of the target amount of the portion of the annual cash incentive bonus attributable to that objective. The table below sets forth the goals established at each of these performance levels, actual performance for 2013 and the percentage of target earned for each objective.

Objectives	**Min. (0%)**	**Thresh. (50%)**	**Target (100%)**	**High (150%)**	**Max. (200%)**	**Actual**	**Earned % (4)**
Total net operating income (% of budget)[1]	84%	92%	100%	108%	116%	100.6%	103.7%
Regional net operating income (% of budget)[1]							
West region (Phelan)	84%	92%	100%	108%	116%	99.8%	98.7%
East region (Ruen)	84%	92%	100%	108%	116%	98.4%	90.2%
Total capital deployment[2]	$ 120	$ 220	$ 370	$ 520	$ 620	$ 535.4	157.7%
Regional/National capital deployment[2]							
West Region (Phelan)	$ 110	$ 150	$ 190	$ 230	$ 270	$ 252.8	178.5%
East Region (Ruen)	$ 30	$ 40	$ 75	$ 110	$ 145	$ 61.9	82.6%
National (Wattles)	$ 0	$ 50	$ 100	$ 150	$ 200	$ 48.0	48.0%
Assets sales/equity raises[3]	$ 120	$ 220	$ 370	$ 520	$ 620	$ 470.9	133.6%

(1) Represents net operating income, excluding new acquisitions and adjusted for dispositions. Regional net operating income for Messrs. Phelan and Ruen relates to net operating income, excluding new acquisitions and adjusted for dispositions, for properties in each executive s region.

(2) Capital deployment is based on the unlevered investment in acquisitions closed during 2013 plus total projected capital committed to development and value-add projects started in 2013, excluding capital deployed for two properties acquired in a portfolio that are intended to be held short-term. Regional capital deployment for Messrs. Phelan and Ruen is based on acquisitions sourced in each executive s region, excluding deals primarily sourced by Mr. Wattles, plus total projected capital committed to development and value-add projects started in each executive s region in 2013. National capital deployment for Mr. Wattles is based on acquisitions sourced through Mr. Wattles with support from our acquisition teams, excluding widely marketed properties.

(3) Represent total capital raised through asset sales, excluding the sale of assets previously held through DCT Fund I, and the issuance of our equity through public offerings.

(4) To the extent performance fell between two of the established levels of performance, the percentage earned was determined based on linear interpolation between the percentages that would have been earned for the established levels of performance.

In addition, in February 2013, the compensation committee established the following objectives for each of our executives for use, together with our actual funds from operations, which we refer to as FFO, as adjusted, for 2013 as compared to a target of $0.42 per diluted share that approximately represented the midpoint of our initial guidance for 2013 of $0.40-$0.45 per diluted share, in determining the individual/subjective component of the annual cash incentive bonuses for our executives to the extent applicable:

Named Executive Officer	Objectives
Philip L. Hawkins	Objectives relating to debt financing and dividend coverage
Jeffrey F. Phelan	Objectives relating to transitioning into the role of President and development activities
Mathew T. Murphy	Objectives relating to capital expenditures, debt financing and dividend coverage
Michael J. Ruen	Objectives relating to development activities and overseeing the East Region

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With respect to the individual/subjective component of the annual cash incentive bonuses, the compensation committee determined that each of these executives had exceeded target performance. Based on an evaluation of the foregoing objectives, including that our FFO, as adjusted, of $0.45 per diluted share exceeded our target of $0.42 per diluted share, the compensation committee determined that the executives had earned the following percentages of their target amounts with respect to the individual/subjective component of the annual cash incentive bonuses: Mr. Hawkins 120%; Mr. Phelan 120%; Mr. Murphy 130%; and Mr. Ruen 105%.

2013 Bonus Amounts

The compensation committee determined 2013 annual cash incentive bonuses for each of the executives based on the percentage earned for each objective, the executive s pre-established percentage weighting for each objective and the executive s target amount, all as set forth above. The amounts earned with respect to the objectives relating net operating income, capital deployment, asset sales and equity raises, which represented from 80%-100% of the overall bonus opportunity, were determined in a formulaic manner based on actual performance as compared to the goals established in February 2013. The remainder, relating to the individual/subjective component, was determined based on the compensation committee s evaluation of the performance of each of our executives against the objectives established for that executive, including FFO, as described above. The following are the target and actual annual cash incentive bonuses for each of our executives for 2013 and the percentages of the target annual cash incentive bonuses that were paid:

Named Executive Officer	2013 Target Bonus	2013 Actual Bonus	Percentage Payout
Philip L. Hawkins	$ 600,000	$ 768,000	128%
Thomas G. Wattles	$ 200,000	$ 162,000	81%
Jeffrey F. Phelan	$ 300,000	$ 412,000	137%
Matthew T. Murphy	$ 250,000	$ 325,000	130%
Michael J. Ruen	$ 200,000	$ 214,000	107%

Long-Term Equity Incentive Compensation

We grant long-term equity incentive awards to executives as part of our total compensation package. During 2013, the primary component of our long-term equity incentive awards was an annual grant program.

Annual Grant Program

Under the annual grant program, our executives are eligible to receive annual grants of long-term equity incentive compensation. Our annual grant program is intended to reward our executives with long-term compensation for annual performance. The primary objectives of this program are to incent our executives to achieve annual performance goals, further align the interests of our executives with our stockholders over the longer term and serve as a retention tool for our executives. We determine our annual grants based on a dollar value, and pay all of the annual grants in the form of restricted stock or LTIP units. Historically, we have used restricted stock or LTIP units for all or the majority of our long-term equity incentive compensation because we believe that these full value awards provide the best alignment with our stockholders by fully reflecting the total return we provide to our stockholders, including dividends or other distributions as well as potential future increases or decreases in our stock price.

Similar to annual cash incentive bonuses, the employment agreements that we entered into with our executives provide for minimum target values for our annual grants. The terms of their respective employment agreements provided for the following minimum target values for annual grants for 2013: Mr. Hawkins $1,150,000;

Mr. Phelan $450,000; Mr. Murphy $250,000; and Mr. Ruen $450,000. The commitments in these employment agreements related to minimum target values; however, we have discretion to establish the criteria that must be met for the annual grants to be awarded and may grant awards with actual values above or below the target level based on our assessment of performance in order to fully motivate and reward our executives. These employment agreements also specify that the vesting of these awards must occur in equal annual installments over no more than five years.

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In February 2013, we established target values for the annual grants for each of our executives. Except for Mr. Murphy, we maintained the levels of the target values for the annual grants for 2013 for our executives at 2012 levels. The increase in target value for Mr. Murphy was based on a number of factors including the compensation committee s most recent review of competitive market compensation data and the base salaries of our other executive officers. Overall, our decisions regarding the amount of the target values was also based on the compensation committee s analysis of competitive market compensation data and its conclusion that, generally, the amount of the target values for annual grants for our executives did not need to increase in order to remain competitive.

The following table sets forth the target values of the annual grants for each of our executives for 2013 and 2012:

Named Executive Officer	2013 Target Value	2012 Target Value	Percentage Change
Philip L. Hawkins	$ 1,150,000	$ 1,150,000	
Thomas G. Wattles	$ 450,000	$ 450,000	
Jeffrey F. Phelan	$ 450,000	$ 450,000	
Mathew T. Murphy	$ 375,000	$ 250,000	50%
Michael J. Ruen	$ 450,000	$ 450,000	

With the exception of Mr. Wattles, half of the actual values of the annual equity awards granted to each of our executives were determined using the same overall percentage payouts relative to the targets that were used to determine the annual cash incentive bonuses, except that the amounts that could be earned ranged from 50% to 150% of the target amount for each of our executives. The remaining half of the actual values of the annual equity awards granted to each of our executives, with the exception of Mr. Wattles, were based on our total stockholder return as compared to the median total stockholder return of a selected peer group, which we refer to as the median TSR. The peer group consisted of Duke Realty Corporation, EastGroup Properties, Inc., First Industrial Realty Trust, Inc., Liberty Property Trust, STAG Industrial, Inc. and the SNL US REIT Industrial Index. The amounts that could be earned ranged from 50% to 150% of the target and reaching the median TSR would result in a payout equal to 100% of target. For 2013, the median TSR was 12.40% as compared to our total stockholder return of 14.21%, and as a result the compensation committee awarded a payout equal to 110.0% of target. For Mr. Wattles, all of his annual equity award granted to him was determined using the same objectives and percentage weightings that were used to determine Mr. Wattles annual cash incentive bonus. In each case, the equity awards were subject to the compensation committee s ability to exercise negative discretion to award our executives equity awards that were less than what would have been earned based on the formulaic application of the predetermined objectives. Accordingly, the following are the target and actual values of the annual equity awards for each of our executives for 2013 and the percentages of the target value that were awarded:

Named Executive Officer	2013 Target Value	2013 Actual Value	Percentage Payout
Philip L. Hawkins	$ 1,150,000	$ 1,369,000	119%
Thomas G. Wattles	$ 450,000	$ 364,000	81%
Jeffrey F. Phelan	$ 450,000	$ 557,000	124%
Matthew T. Murphy	$ 375,000	$ 450,000	120%
Michael J. Ruen	$ 450,000	$ 489,000	109%

For each of our executives, the annual grant was made in the form of restricted stock or LTIP units, at the election of the executive. For purposes of determining the annual grants, we valued restricted stock and LTIP units based on $7.36 per share or unit, which was the closing stock price of our common stock on February 4, 2014, the date the awards were approved. With the exception of Mr. Wattles, each of these annual equity awards vests over four years with 25% vesting on January 1, 2015 and 25% on each January 1st thereafter, subject to continued employment with us through such date. Mr. Wattles equity award vests over four years with 25% vesting on January 1, 2015 and 25% on each January 1st thereafter, however, vesting is not subject to continued employment with us through such date.

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The following table sets forth the terms of the equity awards actually made to our executives in 2014 with respect to 2013:

Named Executive Officer	LTIP Units (# of units)
Philip L. Hawkins	186,006
Thomas G. Wattles	49,457
Jeffrey F. Phelan	75,680
Matthew T. Murphy	61,142
Michael J. Ruen	66,441

Promotional/New Hire Grants

In addition to annual grants of long-term equity incentive compensation, in 2013, the compensation committee also awarded Mr. Phelan a one-time equity award, with a value of $400,000, in connection with his promotion to President on January 1, 2013. The amount of the award was based on a number of factors including the compensation committee s most recent review of competitive market compensation data, the amount considered appropriate by the compensation committee to reflect Mr. Phelan s increased responsibilities and similar awards granted to other executive officers in the past in connection with their hiring or promotion. This grant was made in the form of restricted stock or LTIP units, at the election of Mr. Phelan. For purposes of determining the number of shares or units, we valued restricted stock and LTIP units based on $6.49 per share or unit, which was the closing stock price of our common stock on December 31, 2012. The equity awards vests over five years with 25% vesting on December 31, 2015, an additional 25% vesting on December 31, 2016 and the remaining 50% vesting on December 31, 2017, in each case subject to continued employment with us through such date.

LTIP Units

In 2006, we established a program under our Second Amended and Restated 2006 Long-Term Incentive Plan, or the 2006 Plan, for the grant of other equity-based awards, valued by reference to shares of our common stock, consisting of equity interests in DCTOP which we refer to as long-term incentive units or LTIP units. LTIP units are a separate class of units of limited partnership interest in DCTOP. LTIP units, which can be granted either as free-standing awards or together with other awards under the 2006 Plan are valued by reference to the value of our common stock, and may be subject to such conditions and restrictions as the compensation committee may determine, including continued employment or service, computation of financial metrics and/or achievement of pre-established performance goals and objectives. If applicable conditions and/or restrictions are not attained, participants will forfeit their LTIP units. Generally, LTIP unit awards, whether vested or unvested, entitle the holder to receive distributions from DCTOP that are equivalent to the dividends and distributions that would be made with respect to the number of shares of our common stock underlying the LTIP unit award, though receipt of such distributions may be delayed or made contingent on vesting.

LTIP units are structured as profits interests for U.S. federal income tax purposes, and we do not expect the grant, vesting or conversion of LTIP units into common units to produce a tax deduction for us. As profits interests, LTIP units initially will not have full parity, on a per-unit basis, with common units with respect to liquidating distributions. Upon the occurrence of specified events, LTIP units can over time achieve full parity with common units and therefore accrete to an economic value for the participant equivalent to common units. This accretion to parity is driven, in part, by partnership tax rules and is based on the book capital account associated with LTIP units for tax purposes. Generally, the book capital account associated with LTIP units when they are initially issued is zero, while the book capital account associated with common units is equal on a per unit basis to the price per share of our common stock. Economic parity is reached when the book capital account of the LTIP units has grown, through special allocations of unrealized or realized gain, to be equal to that of an equal number of common units. Events that allow such special allocations under the partnership agreement and

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applicable federal tax regulations include: (1) our issuance of common stock, (2) the issuance by DCTOP of common or other partnership units, (3) our repurchases of significant amounts of common stock for cash, and (4) the redemption by DCTOP of common units for cash, in each case so long as the price of our common stock at the time is higher than the price on the date on which the LTIP units were initially issued. If such parity is achieved, LTIP units may be converted, subject to the satisfaction of applicable vesting conditions, on a one-for-one basis into common units, which in turn are redeemable by the holder for cash or, at our election, shares of our common stock on a one-for-one basis. However, there are circumstances under which LTIP units will not achieve parity with common units, and until such parity is reached, the value that a participant in the program could realize for a given number of LTIP units will be less than the value of an equal number of shares of our common stock and may be zero. Ordinarily, we anticipate that each LTIP unit awarded will be equivalent to an award of one share of common stock reserved under our 2006 Plan, thereby reducing the number of shares of common stock available for subsequent awards of stock options, shares of restricted stock, phantom shares, dividend equivalent rights and other equity-based awards on a one-for-one basis. However, the compensation committee has the authority to determine the number of shares of common stock underlying an award of LTIP units in light of all applicable circumstances, including performance-based vesting conditions, operating partnership capital account allocations, to the extent set forth in the limited partnership agreement for DCTOP, the Internal Revenue Code or applicable regulations, value accretion factors or conversion ratios.

LTIP units are designed to offer executives the same long-term incentive as shares of restricted stock, while allowing them to enjoy the more favorable U.S. federal income tax treatment available for profits interests. More specifically, one key disadvantage of restricted stock is that executives are generally taxed on the full market value of a grant at the time of vesting, even if they choose to hold the stock. As a result, executives often need to sell a portion of their vested shares upon vesting to pay taxes on their restricted stock awards from prior years, which may limit an executive s ability to increase his or her equity ownership over the long term. Conversely, an executive would generally be taxed only when he or she chooses to liquidate his or her LTIP units. Therefore, an executive who wishes to hold his or her equity awards for the long term can do so in a more tax-efficient manner with LTIP units. In light of the trade-offs between increased tax efficiency and incremental economic risk involved in LTIP units as compared to restricted stock, it is generally our policy to allow eligible executives a choice between restricted stock and LTIP units on a one-for-one basis for their equity-based incentive compensation awards. We believe that the use of LTIP units (1) enhances our equity-based compensation package overall, (2) advances the goal of promoting long-term equity ownership by executives, (3) has no adverse impact on dilution as compared to restricted stock, and (4) further aligns the interests of our executives with the interests of our stockholders. We also believe that these benefits outweigh the loss of the U.S. federal income tax business-expense deduction from the issuance of LTIP units, as compared to restricted stock.

Stock Ownership Guidelines

In order to complement our long-term equity incentive compensation program and further align the interests of our executives with those of our stockholders, our board of directors adopted stock ownership guidelines that apply to our executives. See Executive and Director Compensation Director and Officer Stock Ownership Guidelines below for a summary of these guidelines.

Equity Award Grant Policy

Since 2007, we have maintained an equity award grant policy in order to formalize our approach regarding the timing and pricing of equity awards made to the executives and all other employees. Under our current equity award grant policy, generally, equity awards will only be made to existing employees on an annual basis or in connection with a promotion or other extraordinary event. The amount of annual awards will be determined at a pre-scheduled meeting of the compensation committee that is expected to be held in January or February of each year. Shares of restricted stock, LTIP units or other full-value awards granted as part of the annual awards will be denominated in dollars and will be priced based on the closing price of our common stock on the date of the meeting at which they were approved. Stock options, if granted as part of the annual awards, will either be

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denominated in shares or dollars, will have an exercise price per share equal to the closing price of our common stock on the date of the meeting at which they were approved and, if denominated in dollars, will be for the number of shares determined using the formula approved by the compensation committee at the time of the grants. Promotional or extraordinary grants will be granted and priced on the later of the date on which the promotion or other extraordinary event occurs or the date on which the grant is approved.

Tax Treatment

We generally take into account the tax treatment of the compensation of our executives, including the expected tax treatment to our executives and whether we will be able to deduct the amount of any compensation paid as a result of limitations under Section 162(m) of the Internal Revenue Code or otherwise. To the extent consistent with our other compensation objectives, we attempt to preserve the deductibility of the compensation that we pay to our executives. However, in order to appropriately compensate our executives and maintain the flexibility we desire in our bonus programs, we are prepared to exceed the $1 million limit under Section 162(m) for compensation to our executives. Additionally, we use LTIP units or offer to executives the choice of LTIP units (as described above under Our Executive Compensation Programs Long-Term Equity Incentive Compensation LTIP Units) which may be more advantageous to executives from a tax perspective than other types of full-value awards, such as shares of restricted stock, but result in the loss of a tax deduction for us.

Employment Agreements

We have employment agreements with Messrs. Hawkins, Murphy, Phelan and Ruen. We entered into employment agreements with Messrs. Hawkins, Murphy and Ruen in October 2012, which superseded their previous employment agreements with us. In December 2012, we entered into an employment agreement with Mr. Phelan in connection with his appointment as President, which took effect on January 1, 2013. We do not have an employment agreement with Mr. Wattles.

For Messrs. Hawkins, Murphy and Ruen, their employment agreements, among other things, provide for severance payments generally equal to a multiple of salary and bonus plus acceleration of all time-based vesting on equity awards and continuation of coverage under our group health plan for a period of time in the event of a termination of employment by us without cause or by an executive for good reason. In return, each of these executives has agreed to non-compete, non-solicitation, non-interference and confidentiality provisions.

Commensurate with his new title as President, under his new employment agreement Mr. Phelan s salary was increased from $260,000 to $400,000, his annual target cash bonus was increased from at least $200,000 to at least $300,000 and he was given a one-time equity grant of $400,000. Otherwise the terms of Mr. Phelan s new employment agreement are substantially the same as his previous employment agreement. Both under Mr. Phelan s new employment agreement and his employment agreement in place during 2012, in the event of a termination of employment by us without cause or by Mr. Phelan for good reason, the employment agreements, among other things, permit Mr. Phelan to offer to enter into a one-year consulting agreement with us on pre-negotiated terms, including non-compete, non-solicitation and confidentiality provisions that apply during the term. We then have the option to either enter into the agreement and, among other things, pay the pre-negotiated compensation to Mr. Phelan during the term or refuse Mr. Phelan s offer and provide him with severance payments generally equal to a multiple of salary and bonus plus acceleration of all time-based vesting on equity awards and continuation of coverage under our group health plan for a period of time. For Mr. Phelan, in the event that the termination occurs within 12 months after a change-in-control, we have agreed to provide him with severance payments regardless of whether he has offered to enter into the consulting agreement. The new agreement also provides for acceleration of all time-based vesting on equity awards upon the occurrence of a change-in-control regardless of whether Mr. Phelan s employment is terminated.

For each of our executives with whom we have entered into an employment agreement, we believe that because the severance level and/or terms of any continuing consulting agreement are negotiated up front, it makes it easier for us to terminate these executives without the need for protracted negotiations over severance.

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We also believe that providing pre-negotiated severance benefits for all of our executives in the event they are terminated without cause or terminate their employment for good reason following a change-in-control helps to further align the interests of our executives and our stockholders in the event of a potentially attractive proposed change-in-control transaction following which one or more of our executives may be expected to be terminated. See Executive and Director Compensation Potential Payments Upon Termination or Change-in-Control for a summary of the employment agreements.

Broad-Based Benefits

All full-time employees, including our executives, may participate in our health and welfare benefit programs, including medical, dental and vision care coverage, disability insurance and life insurance, and our 401(k) plan. We do not provide any other benefits or perquisites to our executives.

Anti-Hedging and Anti-Pledging Policy

None of our executives have engaged in any hedging transactions with respect to our stock or pledged any of his shares of our stock. In 2013, we established formal anti-hedging policies that generally prohibits all of our executive officers and directors, including our executives, from engaging in any hedging transactions. Exceptions to this anti-hedging policy can only be made with the prior approval of the audit committee. We also have an anti-pledging policy that generally prohibits all of our executive officers and directors, including our executives, from pledging any shares of our stock. Exceptions to this policy can only be made with the prior approval of our compliance officer.

Executive Compensation Process

Information regarding our processes and procedures for considering and determining the compensation of our executives, including the role of any executive officers, is described below under Executive and Director Compensation Executive and Director Compensation Process.

Summary of Executive Compensation

The following table sets forth certain information with respect to compensation paid for 2013, 2012 and 2011 to each of our named executive officers.

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SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary($)	Bonus($)	Stock Awards ($)[1]	Option Awards ($)[1]	Non-Equity Incentive Plan Compensation ($)[2]	All Other Compensation ($)	Total ($)
Philip L. Hawkins	2013	$ 600,000	$	$ 1,397,709	$	$ 768,000	$	$ 2,765,709
	2012	600,000		1,357,315		900,982		2,858,297
Chief Executive Officer	2011	600,000		754,334	195,758	740,000		2,290,092
Thomas G. Wattles	2013	260,000		571,995		162,000		993,995
	2012	260,000		375,427		268,531		903,958
Executive Chairman of the Board								
Jeffrey F. Phelan	2013	400,000		869,793		412,000		1,681,793
	2012	260,000		532,339		248,153		1,040,492
President	2011	260,000		269,403	69,914	245,000		844,317
Matthew T. Murphy	2013	300,000		304,742		325,000		929,742
	2012	275,000		300,342		377,284		952,626
Chief Financial Officer and Treasurer	2011	228,958		388,458	25,969	313,000		956,385
Michael J. Ruen	2013	260,000		477,367		214,000		951,367
	2012	260,000		532,339		235,012		1,027,351
Managing Director, East Region	2011	260,000		277,103	71,911	245,000		854,014

(1) Except as otherwise noted, amounts for 2011, 2012 and 2013 are based on the aggregate grant date fair value of stock awards and option awards granted in the fiscal years ended December 31, 2011, 2012 and 2013 respectively, in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation Stock Compensation, or ASC Topic 718, disregarding the estimate of forfeitures. The assumptions we used for calculating the grant date fair values are set forth in note 11 to our consolidated financial statements included in our annual report on Form 10-K for the fiscal year ended December 31, 2013.

(2) For 2011, 2012 and 2013, the amounts set forth in the Non-Equity Incentive Plan Compensation column set forth the amounts earned by each of the named executive officers pursuant to our 2011, 2012 and 2013 annual cash incentive bonus program. See Compensation Discussion and Analysis Annual Cash Incentive Bonuses for a detailed description of our 2013 annual cash incentive bonus program.

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Grants of Plan-Based Awards

The following table sets forth certain information with respect to grants of plan-based awards for the year ended December 31, 2013 to our named executive officers.

2013 GRANTS OF PLAN-BASED AWARDS

		Estimated Possible Payouts Under Non-Equity Incentive Plan Awards[1]				
Name	**Grant Date**	**Threshold ($)**	**Target ($)**	**Maximum ($)**	**All Other Stock Awards: Number of Shares of Stock or Units (#)[2]**	**Grant Date Fair Value of Stock and Option Awards ($)**
Philip L. Hawkins	02/06/13	N/A	$ 600,000	$ 1,200,000		$
	02/06/13				207,068	1,397,709
Thomas G. Wattles	02/06/13	N/A	200,000	400,000		
	02/06/13				84,740	571,995
Jeffrey F. Phelan	02/06/13	N/A	300,000	600,000		
	02/06/13				72,795	869,793
Matthew T. Murphy	02/06/13	N/A	250,000	500,000		
	02/06/13				45,147	304,742
Michael J. Ruen	02/06/13	N/A	200,000	400,000		
	02/06/13				70,721	477,367

(1) Represents the payouts to our named executive officers that were possible pursuant to the portion of our 2013 annual cash incentive bonus program that was based on the achievement of performance goals relating to net operating income, acquisitions and commencement of development projects and asset sales and equity raises, which represented 80-100% of the total possible payouts to our named executive officers under the program. For each of the goals, five different levels of performance were established pursuant to which executives could earn from 0-200% of the target amount of the portion of the annual cash incentive bonus attributable to that objective. Accordingly, the Threshold ($) subcolumn is not applicable. Up to 20% of the remaining total possible payouts to our named executive officers under our 2013 annual cash incentive bonus program was determined based on the achievement of goals based on the compensation committee s evaluation of performance against such objectives established for the given executive. The actual amounts paid pursuant to the 2013 annual cash incentive bonus program are set forth in the Summary Compensation Table above in the Non-Equity Incentive Plan Compensation column. See Compensation Discussion and Analysis Annual Cash Incentive Bonuses for a detailed description of our annual cash incentive bonus program.

(2) All awards were grants of LTIP units and were made under the 2006 Plan. The total number of LTIP units granted were based on the dollar value of the awards approved on February 6, 2013 and the closing price of our common stock on the New York Stock Exchange on February 6, 2013.

Discussion of Summary Compensation and Grants of Plan-Based Awards Tables

Our executive compensation policies and practices, pursuant to which the compensation set forth in the Summary Compensation Table and the 2013 Grants of Plan-Based Awards Table was paid or awarded, are described above under Compensation Discussion and Analysis. A summary of certain material terms of our compensation plans and arrangements is set forth below.

In 2013, we granted equity awards to our named executive officers under the 2006 Plan, as described in the 2013 Grants of Plan-Based Awards table. Each stock option granted has a term of ten-years from its grant date. Generally, to the extent vested, each stock option is exercisable during the term of the option while the grantee maintains a service relationship with us and for a period of three months thereafter, unless such termination is upon death or disability, in which case the grantee or his or her heir(s) may continue to exercise the stock option for a period of one year thereafter. With the exception of Mr. Wattles, each of the equity awards granted in 2013

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vests over four years with 25% vesting on January 1, 2014 and 25% on each January 1st thereafter based on continued employment; provided that vesting of each is also subject to acceleration in connection with a change-in-control as described below under Potential Payments Upon Termination or Change-in-Control. Mr. Wattles equity award vests over four years with 25% vesting on January 1, 2014 and 25% on each January 1st thereafter, however, vesting is not subject to continued employment with us through such date. Generally, we pay distributions and dividends to holders of all LTIP units and shares of restricted stock, whether vested or not, at the same rate per share as the dividends per share paid to our common stockholders. The terms of the LTIP units are described above under Compensation Discussion and Analysis Long-Term Equity Incentive Compensation LTIP Units.

The terms of employment agreements and change-in-control agreements that we have entered into with our executives are described below under Potential Payments Upon Termination or Change-in-Control.

Outstanding Equity Awards

The following table sets forth certain information with respect to outstanding equity awards at December 31, 2013, with respect to our named executive officers.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END 2013

	Option Awards				Stock Awards	
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)[1]**
Philip L. Hawkins	200,698		$ 11.46	01/11/2017		
	359,375		8.64	02/11/2018		
	75,000		3.41	02/10/2019		
	111,691	37,230[2]	4.56	02/11/2020		
	59,036	59,036[3]	5.55	02/03/2021		
					45,395[4]	$ 323,666
					70,630[5]	503,592
					188,167[6]	1,341,631
					207,068[7]	1,476,395
Thomas G. Wattles	273,438		8.64	2/11/2018		
	350,000		3.41	2/10/2019		
					52,046[6]	371,088
					84,740[7]	604,196
Jeffrey F. Phelan		21,084[3]	5.55	02/03/2021		
					61,633[10]	439,443
					143,403[9]	1,022,463
					25,225[5]	179,854
					73,799[6]	526,187

					72,795(7)	519,028
Matthew T. Murphy	8,726		11.46	01/11/2017		
	31,250		8.64	02/11/2018		
	32,000		3.41	02/10/2019		
	12,086	4,029(2)	4.56	02/11/2020		
	7,832	7,831(3)	5.55	02/03/2021		
					4,913(4)	35,030
					9,369(5)	66,801
					41,637(6)	296,872
					45,147(7)	321,898
					61,100(8)	435,643

	Option Awards				Stock Awards	
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units of Stock That Have Not Vested (#)**	**Market Value of Shares or Units of Stock That Have Not Vested ($)(1)**
Michael J. Ruen	47,993		11.46	01/11/2017		
	140,625		8.64	02/11/2018		
	110,000		3.41	02/10/2019		
	43,705	14,568(2)	4.56	02/11/2020		
	21,687	21,686(3)	5.55	02/03/2021		
					17,764(4)	126,657
					25,946(5)	184,995
					73,799(6)	526,187
					70,721(7)	504,241

(1) Based on a price of $7.13 per share/unit, which was the closing price on the New York Stock Exchange of one share of our common stock on December 31, 2013. Assumes that the value of LTIP units on a per unit basis is equal to the per share value of our common stock.

(2) Represents the unvested portion of stock options to purchase the following number of shares of common stock, which were granted on February 11, 2010 under the 2006 Plan: Mr. Hawkins 148,921 shares; Mr. Murphy 16,115 shares; and Mr. Ruen 58,273 shares. The total number of shares originally subject to the stock options were subject to vesting over four years with 25% vesting on January 1, 2011, and 25% on January 1 of each of the following three years based on continued employment.

(3) Represents the unvested portion of stock options to purchase the following number of shares of common stock, which were granted on February 3, 2011 under the 2006 Plan: Mr. Hawkins 118,072 shares; Mr. Phelan 42,169 shares; Mr. Murphy 15,663 shares; and Mr. Ruen 43,373 shares. The total number of shares originally subject to the stock options were subject to vesting over four years with 25% vesting on January 1, 2012, and 25% on January 1 of each of the following three years based on continued employment.

(4) Represents the unvested portion of the following equity awards that were granted on February 25, 2010 under the 2006 Plan: Mr. Hawkins 181,579 LTIP units; Mr. Murphy 19,649 LTIP units; and Mr. Ruen 71,053 LTIP units. The total number of LTIP units originally granted were subject to vesting over four years with 25% vesting on January 1, 2011, and 25% on January 1 of each of the following three years based on continued employment.

(5) Represents the unvested portion of the following equity awards that were granted on February 3, 2011 under the 2006 Plan: Mr. Hawkins 141,261 LTIP units; Mr. Phelan 50,450 LTIP units; Mr. Murphy 18,739 LTIP units; and Mr. Ruen 51,892 LTIP units. The total number of LTIP units originally granted were subject to vesting over four years with 25% vesting on January 1, 2012, and 25% on January 1 of each of the following three years based on continued employment.

(6) Represents the unvested portion of the following equity awards that were granted on February 23, 2012 under the 2006 Plan: Mr. Hawkins 250,890 LTIP units; Mr. Wattles 69,395; Mr. Phelan 98,399 LTIP units; Mr. Murphy 55,516 LTIP units; and Mr. Ruen 98,399 LTIP units. With the exception of Mr. Wattles, the total number of LTIP units originally granted were subject to vesting over four years with 25% vesting on January 1, 2013, and 25% on January 1 of each of the following three years based on continued employment. Mr. Wattles

equity award vests over four years with 25% vesting on each of the first four anniversaries of January 1, 2013, however, vesting is not subject to continued employment with us through such date.

(7) Represents the unvested portion of the following equity awards that were granted on February 21, 2013 under the 2006 Plan: Mr. Hawkins 207,068 LTIP units; Mr. Wattles 84,740; Mr. Phelan 72,795 LTIP units; Mr. Murphy 45,147 LTIP units; and Mr. Ruen 70,721 LTIP units. With the exception of Mr. Wattles, the total number of LTIP units originally granted were subject to vesting over four years with 25% vesting on January 1, 2014, and 25% on January 1 of each of the following three years based on

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continued employment. Mr. Wattles equity award vests over four years with 25% vesting on each of the first four anniversaries of January 1, 2014, however, vesting is not subject to continued employment with us through such date.

(8) Represents the unvested portion of 61,100 LTIP units granted on September 30, 2011 that vest 25% on September 18, 2014, 25% on September 18, 2015, and 50% on September 18, 2016 based on continued employment.

(9) Represents the unvested portion of 191,204 LTIP units granted on March 31, 2010 that vest 25% on March 30, 2013, 25% on March 30, 2014, and 50% on March 30, 2015 based on continued employment.

(10) Represents 61,633 LTIP units granted on January 1, 2013 that vest 25% on December 31, 2015, 25% on December 31, 2016, and 50% on December 31, 2017 based on continued employment.

Option Exercises and Stock Vested

The following table sets forth the aggregate number of options to purchase shares of our common stock exercised by our named executive officers in 2013 and the aggregate number of shares of common stock and LTIP units that vested in 2013. The value realized on exercise is the product of (1) the closing price on the New York Stock Exchange of a share of common stock on the date of exercise minus the exercise price, multiplied by (2) the number of shares of common stock underlying exercised options. The value realized on vesting is the product of (1) the closing price on the New York Stock Exchange of a share of common stock on the vesting date (or, if there were no reported sales on such date, the most recent previous date on which there were reported sales), multiplied by (2) the number of shares/LTIP units vesting.

2013 OPTION EXERCISES AND STOCK VESTED

	Option Awards		Stock Awards	
Name	**Number of Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)**	**Number of Shares Acquired on Vesting (#)**	**Value Realized on Vesting ($)**
Philip L. Hawkins		$	244,007	$ 1,619,819
Thomas G. Wattles			17,349	112,595
Jeffrey F. Phelan	21,085	39,429	122,736	864,198
Matthew T. Murphy			56,460	384,532
Michael J. Ruen			109,188	732,773

Potential Payments Upon Termination or Change-in-Control

The following is a description of the material terms of our employment agreements with our named executive officers.

Philip L. Hawkins

On October 9, 2012, we entered into an employment agreement with Mr. Hawkins under which he serves as our Chief Executive Officer and a director. Mr. Hawkins employment agreement has a three year term and provides for an annual salary of at least $600,000, annual cash bonuses with a target cash bonus of at least 100% of Mr. Hawkins annual salary for the applicable fiscal year and annual equity awards with a target value of at least $1,150,000; provided that the amount of the actual cash bonuses paid and the value of the actual equity awards granted will be made by us, in our sole discretion, based on such factors relating to the performance of Mr. Hawkins or DCT

Industrial Trust as we deem relevant and, in each case, may be more or less than the target amount. Generally, if Mr. Hawkins is terminated for any reason, under the employment agreement he will be subject to the following continuing obligations after termination: (1) noncompetition with us for one year (unless

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employment is terminated (i) upon or after termination of the term of employment or (ii) by us without cause or Mr. Hawkins for good reason in connection with or within 18 months after a change-in-control, in which case the noncompetition provision will not extend beyond termination of employment); (2) nonsolicitation and non-hiring of our employees for one year; (3) non-interference with our business for one year; (4) nondisparagement of us for one year; and (5) cooperation with us in connection with future claims or investigations. The employment agreement also provides for the following payments and benefits to Mr. Hawkins in connection with the termination of his employment with us or if we experience a change-in-control:

Change-in-control without termination. Upon a change-in-control while Mr. Hawkins is employed by us that occurs during or after the expiration of the term of employment under the agreement, all of Mr. Hawkins outstanding unvested equity awards subject to time-based vesting conditions will fully vest upon a change-in-control; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms.

Termination without cause or for good reason. If Mr. Hawkins employment is terminated by us without cause or by Mr. Hawkins for good reason during the term of employment or within 18 months after a change-in-control that occurs during the term of employment or thereafter, Mr. Hawkins will receive (1) annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment, (2) a lump sum payment equal to the sum of (i) two times (or, in the event of a termination within 18 months after a change-in-control, three times) annual salary plus (ii) two times (or, in the event of a termination within 18 months after a change-in-control, three times) the greater of the target cash bonus for the year of termination or the average of actual cash bonuses for the two years preceding the year of termination and (3) a pro-rata cash bonus for the year in which Mr. Hawkins employment was terminated based on the target annual cash bonus. Mr. Hawkins will also continue to receive his medical and welfare benefits for two years, and all of his outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms. Mr. Hawkins receipt of these payments and benefits (other than the annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment) in connection with a termination without cause or for good reason is subject to his execution of a general release of claims with us.

Termination upon death or disability. If Mr. Hawkins employment is terminated by us upon Mr. Hawkins death or disability, Mr. Hawkins will receive (1) annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment and (2) a pro-rata cash bonus for the year in which Mr. Hawkins employment was terminated based on the target annual cash bonus. In addition, all of Mr. Hawkins outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms. Mr. Hawkins receipt of these payments and benefits (other than the annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment) in connection with a termination upon disability is subject to his execution of a general release of claims with us.

If any payments and benefits to be paid or provided to Mr. Hawkins, whether pursuant to the terms of the employment agreement or otherwise, would be subject to golden parachute excise taxes under the Internal Revenue Code, Mr. Hawkins payments and benefits under his employment agreement will be reduced to the extent necessary to avoid such excise taxes, but only if such a reduction of pay or benefits would result in a greater after-tax benefit to Mr. Hawkins.

Matthew T. Murphy

On October 9, 2012, we entered into an employment agreement with Mr. Murphy under which he serves as our Chief Financial Officer and Treasurer. Mr. Murphy s agreement has a three year term and provides for an annual salary of at least $275,000, annual cash bonuses with a target cash bonus of $250,000, annual equity

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awards with a target value of at least $250,000; provided that the amount of the actual cash bonuses paid and the value of the actual annual equity awards granted will be made by us, in our sole discretion, based on such factors relating to the performance of Mr. Murphy or DCT Industrial Trust as we deem relevant and, in each case, may be more or less than the target amount. Generally, if Mr. Murphy is terminated for any reason, under the employment agreement he will be subject to the following continuing obligations after termination: (1) noncompetition with us for one year (unless employment is terminated (i) upon or after termination of the term of employment or (ii) by the Company without cause or Mr. Murphy for good reason in connection with or within 12 months after a change-in-control, in which case the noncompetition provision will not extend beyond termination of employment); (2) nonsolicitation and non-hiring of our employees for one year; (3) non-interference with our business for one year; (4) nondisparagement of us for one year; and (5) cooperation with us in connection with future claims or investigations. The employment agreement also provides for the following payments and benefits to Mr. Murphy in connection with the termination of his employment with us or if we experience a change-in-control:

Change-in-control without termination. Upon a change-in-control while Mr. Murphy is employed by us that occurs during or after the expiration of the term of employment under the agreement, all of Mr. Murphy s outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms.

Termination without cause or for good reason. If Mr. Murphy s employment is terminated by us without cause or by Mr. Murphy for good reason during the term of employment or within 12 months of a change-in-control that occurs during the term of employment or thereafter, Mr. Murphy will receive (1) annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment, (2) a lump sum payment equal to the sum of (i) one times (or, in the event of a termination within 12 months after a change-in-control, two times) annual salary plus (ii) one times (or, in the event of a termination within 12 months after a change-in-control, two times) the greater of the target cash bonus for the year of termination or the average of actual cash bonuses for the two years preceding the year of termination and (3) a pro-rata cash bonus for the year in which Mr. Murphy s employment was terminated based on the target annual cash bonus. Mr. Murphy will also continue to receive his medical and welfare benefits for two years, and all of his outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms. Mr. Murphy s receipt of these payments and benefits (other than the annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment) in connection with a termination without cause or for good reason is subject to his execution of a general release of claims with us.

Termination upon death or disability. If Mr. Murphy s employment is terminated by us upon Mr. Murphy s death or disability, Mr. Murphy will receive (1) annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment and (2) a pro-rata cash bonus for the year in which Mr. Murphy s employment was terminated based on the target annual cash bonus. In addition, all of Mr. Murphy s outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms. Mr. Murphy s receipt of these payments and benefits (other than the annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment) in connection with a termination upon disability is subject to his execution of a general release of claims with us.

If any payments and benefits to be paid or provided to Mr. Murphy, whether pursuant to the terms of the employment agreement or otherwise, would be subject to golden parachute excise taxes under the Internal Revenue Code, Mr. Murphy s payments and benefits under his employment agreement will be reduced to the extent necessary to avoid such excise taxes, but only if such a reduction of pay or benefits would result in a greater after-tax benefit to Mr. Murphy.

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Jeffrey F. Phelan

On December 4, 2012, we entered into an employment agreement, effective January 1, 2013, with Mr. Phelan under which he serves as our President. Mr. Phelan s agreement has a three year term and provides for an annual salary of at least $400,000, annual cash bonuses with a target cash bonus of at least $300,000 and annual equity awards with a target value of at least $450,000; provided that the amount of the actual cash bonuses paid and the value of the actual equity awards granted will be made by us, in our sole discretion, based on such factors relating to the performance of Mr. Phelan or DCT Industrial Trust as we deem relevant and, in each case, may be more or less than the target amount. Generally, if Mr. Phelan is terminated for any reason, under the employment agreement he will be subject to the following continuing obligations after termination: (1) nonsolicitation of our employees for one year; (2) nondisparagement of us for one year; and (3) cooperation with us in connection with future claims or investigations. The employment agreement also provides for the following payments and benefits to Mr. Phelan in connection with the termination of his employment with us or if we experience a change-in-control:

Change-in-control without termination. Upon a change-in-control while Mr. Phelan is employed by us that occurs during or after the expiration of the term of employment under the agreement, all of Mr. Phelan s outstanding unvested equity awards subject to time-based vesting conditions will fully vest upon a change-in-control; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms.

Termination without cause or for good reason. If Mr. Phelan s employment is terminated by us without cause or by Mr. Phelan for good reason during the term of employment or within 12 months after a change-in-control that occurs during the term of employment or thereafter (a Qualified Termination), Mr. Phelan will receive (1) annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment, and (2) a pro-rata cash bonus for the year in which Mr. Phelan s employment was terminated based on the target annual cash bonus.

Additionally, upon a Qualified Termination, Mr. Phelan may offer to enter into a one-year consulting agreement with us on pre-negotiated terms (the Consulting Agreement). Under the Consulting Agreement, Mr. Phelan would agree to consult with us for up to 10 hours per month and would be subject to non-competition provisions during the term. In exchange, we would (1) pay Mr. Phelan an annual fee equal to 5% of his full-time consulting rate, which equals the sum of (i) his annual salary prior to the termination of his employment plus (ii) the greater of his target cash bonus for the year of the termination of his employment or the average of actual cash bonuses for the two years preceding the year of the termination of his employment, (2) provide Mr. Phelan with continued medical and welfare benefits for 18 months and (3) permit Mr. Phelan to continue vesting in his equity awards subject to time-based vesting. In addition, if Mr. Phelan fully performed under the Consulting Agreement, then at the end of the term, he would be entitled to (1) a bonus equal to the sum of (i) his full-time consulting rate plus (ii) an amount equal to the cost to us of providing Mr. Phelan six months of coverage under the group health plans based on the rates paid by us immediately prior to the termination of his employment and (2) full acceleration of time-based vesting on all of his outstanding unvested equity awards.

If we reject Mr. Phelan s offer to enter into the Consulting Agreement or, regardless of whether Mr. Phelan offered to enter into the Consulting Agreement, if the Qualified Termination occurred within 12 months after a change-in-control, then Mr. Phelan will also receive (1) a lump sum payment equal to the sum of (i) one times (or, in the event of a termination within 12 months after a change-in-control, two times) annual salary plus (ii) one times (or, in the event of a termination within 12 months after a change-in-control, two times) the greater of the target cash bonus for the year of termination or the average of actual cash bonuses for the two years preceding the year of termination and (2) a cash payment equal to the cost to us of providing Mr. Phelan six months of coverage under the group health plans based on the rates paid by us immediately prior to the termination. Mr. Phelan will also continue to receive his medical and welfare benefits for 18 months, and all of his outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms. Mr. Phelan s receipt of these payments and benefits (other than the annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment) in connection with a termination without cause or for good reason is subject to his execution of a general release of claims with us.

Termination upon death or disability. If Mr. Phelan s employment is terminated by us upon Mr. Phelan s death or disability, Mr. Phelan will receive (1) annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment and (2) a pro-rata cash bonus for the year in which Mr. Phelan s employment was terminated based on the target annual cash bonus. In addition, all of Mr. Phelan s outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms. Mr. Phelan s receipt of these payments and benefits (other than the annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment) in connection with a termination upon disability is subject to his execution of a general release of claims with us.

If any payments and benefits to be paid or provided to Mr. Phelan, whether pursuant to the terms of the employment agreement or otherwise, would be subject to golden parachute excise taxes under the Internal Revenue Code, Mr. Phelan s payments and benefits under his employment agreement will be reduced to the extent necessary to avoid such excise taxes, but only if such a reduction of pay or benefits would result in a greater after-tax benefit to Mr. Phelan.

Michael J. Ruen

On October 9, 2012, we entered into an employment agreement with Mr. Ruen under which he serves as our Managing Director, East Region. The employment agreement with Mr. Ruen was amended in October, 2011 to extend its term through October 9, 2012. Mr. Ruen s agreement provides for an annual salary of at least $260,000, annual cash bonuses with a target cash bonus of at least $200,000 and annual equity awards with a target value of at least $450,000; provided that the amount of the actual cash bonuses paid and the value of the actual equity awards granted will be made by us, in our sole discretion, based on such factors relating to the performance of Mr. Ruen or DCT Industrial Trust as we deem relevant and, in each case, may be more or less than the target amount. Generally, if Mr. Ruen is terminated for any reason, under the employment agreement he will be subject to the following continuing obligations after termination: (1) noncompetition with us for one year, or, if employment is terminated by us without cause or Mr. Ruen for good reason, six months, (unless employment is terminated (i) upon or after termination of the term of employment or (ii) by us without cause or Mr. Ruen for good reason in connection with or within 18 months after a change-in-control, in which case the noncompetition provision will not extend beyond termination of employment); (2) nonsolicitation and non-hiring of our employees for one year; (3) non-interference with our business for one year; (4) nondisparagement of us for one year; and (5) cooperation with us in connection with future claims or investigations. The employment agreement also provides for the following payments and benefits to Mr. Ruen in connection with the termination of his employment with us or if we experience a change-in-control:

Change-in-control without termination. Upon a change-in-control while Mr. Ruen is employed by us that occurs during or after the expiration of the term of employment under the agreement, all of Mr. Ruen s outstanding unvested equity awards subject to time-based vesting conditions will fully vest upon a change-in-control; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms.

Termination without cause or for good reason. If Mr. Ruen s employment is terminated by us without cause or by Mr. Ruen for good reason during the term of employment or within 12 months after a change-in-control that occurs during the term of employment or thereafter, Mr. Ruen will receive (1) annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment, (2) a lump sum payment equal to the sum of (i) one times (or, in the event of a termination within 12 months after a change-in-control, two times) annual salary plus (ii) one times (or, in the event of a termination within 12 months after a change-in-control, two times) the greater of the target cash bonus for the year of termination or the average of actual cash bonuses for the two years preceding the year of termination and (3) a pro-rata cash bonus for the year in which Mr. Ruen s employment was terminated based on the target annual cash bonus. Mr. Ruen will also continue to receive his medical and welfare benefits for two years and all of his outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms. Mr. Ruen s receipt of these payments and benefits (other than the annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment) in connection with a termination without cause or for good reason is subject to his execution of a general release of claims with us.

Termination upon death or disability. If Mr. Ruen s employment is terminated by us upon Mr. Ruen s death or disability, Mr. Ruen will receive (1) annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment and (2) a pro-rata cash bonus for the year in which Mr. Ruen s employment was terminated based on the target annual cash bonus. In addition, all of Mr. Ruen s outstanding unvested equity awards subject to time-based vesting conditions will fully vest; provided that any performance-based vesting conditions applicable to such awards will continue to apply in accordance with their terms. Mr. Ruen s receipt of these payments and benefits (other than the annual salary, cash bonus and other benefits earned and accrued under the agreement prior to the termination of employment) in connection with a termination upon disability is subject to his execution of a general release of claims with us.

If any payments and benefits to be paid or provided to Mr. Ruen, whether pursuant to the terms of the employment agreement or otherwise, would be subject to golden parachute excise taxes under the Internal Revenue Code, Mr. Ruen s payments and benefits under his employment agreement will be reduced to the extent necessary to avoid such excise taxes, but only if such a reduction of pay or benefits would result in a greater after-tax benefit to Mr. Ruen.

The terms cause, good reason and change-in-control are specifically defined in the agreements of Mr. Hawkins, Mr. Murphy, Mr. Phelan, and Mr. Ruen.

We do not have an employment, change-in-control, or severance agreement with Mr. Wattles. However, pursuant to the terms of our LTIP unit award agreements, all of the LTIP units issued pursuant to such agreements are subject to automatic and immediate vesting in the event of a change-in-control or upon death or disability. Additionally, pursuant to the terms of our stock option award agreements, all unexercisable stock options held by our continuing executives will automatically become exercisable in the event of a change-in-control prior to a termination of service of the executive.

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The following tables set forth the amounts that would have been paid to our continuing named executive officers in the event of a termination by us without cause or by the executive for good reason other than in connection with a change-in-control; upon death or disability; upon a change-in-control without termination and upon a termination by us without cause or by the executive for good reason in connection with a change-in-control occurring, in each case, as of December 31, 2013:

Philip L. Hawkins

Payments Upon Termination	Without Cause/For Good Reason	Death/ Disability	Change-in-Control (No Termination)	Change-in-Control (Termination Without Cause/For Good Reason)
Bonus	$ 600,000	$ 600,000	$	$ 600,000
Cash Severance	2,840,982			4,261,473
Restricted Stock & LTIP Units Vesting(1)	3,645,284	3,645,284	3,645,284	3,645,284
Stock Option Vesting(2)	188,958	188,958	188,958	188,958
Benefits Continuation(3)	24,857			24,857
Total(5)	**$ 7,300,081**	**$ 4,434,242**	**$ 3,834,242**	**$ 8,720,572**

Thomas G. Wattles

Payments Upon Termination	Without Cause/For Good Reason	Death/ Disability	Change-in-Control (No Termination)	Change-in-Control (Termination Without Cause/For Good Reason)
Bonus	$	$	$	$
Cash Severance				
Restricted Stock & LTIP Units Vesting(1)		975,284	975,284	975,284
Stock Option Vesting(2)				
Benefits Continuation(3)				
Total(5)	**$**	**$ 975,284**	**$ 975,284**	**$ 975,284**

Jeffrey F. Phelan

Payments Upon Termination

	Without Cause/For Good Reason(4)	Death/ Disability	Change-in- Control (No Termination)	Change-in- Control (Termination Without Cause/For Good Reason)
Bonus	$ 300,000	$ 300,000	$	$ 300,000
Cash Severance	700,000			1,400,000
Restricted Stock & LTIP Units Vesting(1)	2,686,975	2,686,975	2,686,975	2,686,975
Stock Option Vesting(2)	33,313	33,313	33,313	33,313
Benefits Continuation(3)	24,857			24,857
Total(5)	**$ 3,745,145**	**$ 3,020,288**	**$ 2,720,288**	**$ 4,445,145**

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Matthew T. Murphy

Payments Upon Termination	Without Cause/For Good Reason	Death/ Disability	Change-in-Control (No Termination)	Change-in-Control (Termination Without Cause/For Good Reason)
Bonus	$ 250,000	$ 250,000	$	$ 250,000
Cash Severance	645,142			1,290,284
Restricted Stock & LTIP Units Vesting(1)	1,156,244	1,156,244	1,156,244	1,156,244
Stock Option Vesting(2)	22,728	22,728	22,728	22,728
Benefits Continuation(3)	24,857			24,857
Total(5)	**$ 2,098,971**	**$ 1,428,972**	**$ 1,178,972**	**$ 2,744,113**

Michael J. Ruen

Payments Upon Termination	Without Cause/For Good Reason	Death/ Disability	Change-in-Control (No Termination)	Change-in-Control (Termination Without Cause/For Good Reason)
Bonus	$ 200,000	$ 200,000	$	$ 200,000
Cash Severance	500,006			1,000,012
Restricted Stock & LTIP Units Vesting(1)	1,342,080	1,342,080	1,342,080	1,342,080
Stock Option Vesting(2)	71,704	71,704	71,704	71,704
Benefits Continuation(3)	24,857			24,857
Total(5)	**$ 2,138,647**	**$ 1,613,784**	**$ 1,413,784**	**$ 2,638,653**

(1) For all executives, except Mr. Wattles, outstanding equity awards fully vest upon a change-in-control, the executive s termination upon death or disability or termination by us without cause or by the executive for good reason (assuming, with respect to Mr. Phelan, that he offers to enter into the Consulting Agreement with us and we reject his offer). For Mr. Wattles, outstanding equity awards fully vest upon a change in control. As of December 31, 2013, Messrs. Hawkins, Wattles, Murphy, Phelan, and Ruen held unvested restricted common stock and unvested LTIP units as follows: Mr. Hawkins 511,260 LTIP units; Mr. Wattles 136,786 LTIP units;

Mr. Phelan 376,855 LTIP units; Mr. Murphy 162,166 LTIP units; and Mr. Ruen 188,230 LTIP units. For purposes of the tables above, the value of the equity awards that vest are based on the value of unvested awards set forth in the Outstanding Equity Awards at Fiscal Year-End 2013 table above.

(2) All of the executives outstanding stock options fully vest upon a change-in-control, the executive s termination upon death or disability or termination by us without cause or by the executive for good reason (assuming, with respect to Mr. Phelan, that he offers to enter into the Consulting Agreement with us and we reject his offer). Information regarding unvested stock options held by our named executive officers as of December 31, 2013 is contained in the Outstanding Equity Awards at Fiscal Year-End 2013 table above.

(3) Benefits continuation amounts are based on the actual expense for financial reporting purposes for the year ended December 31, 2013 for covering an employee under each of our group health plans for the entire year, assuming that the employee elected family coverage under each of these plans, less the minimum contribution required by employees participating in these plans. Mr. Phelan s amount includes a lump sum payment equal to the cost to us of providing Mr. Phelan six months of coverage under the group health plans.

(4) Assumes Mr. Phelan offers to enter into the Consulting Agreement with us and we reject his offer.

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(5) In the event that any payments and benefits to be paid or provided to the executive would be subject to golden parachute excise taxes under the Internal Revenue Code, the executive s payments and benefits will be reduced to the extent necessary to avoid such excise taxes, but only if such a reduction of pay or benefits would result in a greater after-tax benefit to the executive.

The amounts described above do not include payments and benefits to the extent they have been earned prior to the termination of employment or are provided on a non-discriminatory basis to salaried employees upon termination of employment. These include:

- Accrued salary and vacation pay;
- Distribution of plan balances under our 401(k) plan;
- Life insurance proceeds in the event of death; and
- Disability insurance payouts in the event of disability.

Compensation Risks

We reviewed our compensation policies and practices for employees to determine whether they encourage unnecessary or excessive risk-taking. Due to the greater emphasis placed on incentive compensation at higher levels of our organization, and the fact that these individuals are more likely to make decisions that impact corporate performance and could have a material adverse effect on us, the review focused primarily on our executive compensation policies and practices. Based on this review, we concluded that risks arising from our policies and practices for compensating employees are not reasonably likely to have a material adverse effect on us. Our conclusion was based primarily on the following findings:

- vesting schedules for LTIP units and restricted stock cause management to have a significant amount of unvested awards at any given time;
- our executive compensation program has a significant focus on long-term equity compensation;
- the goals for our equity incentive program are aligned with long-term performance objectives/metrics, reflect a balanced mix of individual and company goals aligned with our strategic objectives, are both quantitative and qualitative and provide a comprehensive framework for assessing performance;
- incentive compensation opportunities are capped and therefore do not incentivize employees to maximize short-term performance at the expense of long-term performance;

our compensation levels and opportunities are in keeping with appropriate competitive practice; and

our executives and directors are expected to maintain an ownership interest in the Company, which aligns their interests with those of shareholders.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

For purposes of this section titled Transactions with Related Persons, the terms we and our refer to DCT Industrial Trust Inc. together with its consolidated subsidiaries.

Transactions with Jeffrey F. Phelan

In December 2010, we entered into two agreements whereby we acquired from third parties ownership interests of approximately 44.8% and 52.6% in two bulk industrial buildings located in Ontario, California, totaling 0.5 million square feet. Entities indirectly owned by Mr. Phelan and his wife had existing ownership interests in these buildings of approximately 21.3% and 25.0%, respectively, and acquired from third parties additional ownership interests in these buildings of approximately 19.1% and 22.4%, respectively, pursuant to these two agreements. We purchased our interests in these buildings for approximately $11.6 million (plus the assumption of our pro rata share of approximately $9.4 million of indebtedness encumbering one of the properties). Following the transaction, we owned each of these buildings as tenants-in-common with entities indirectly owned by Mr. Phelan and his wife and are entitled to earn returns on these buildings in accordance with our respective ownership interests. We control the operation and management of these buildings. In connection with this transaction, we also provided approximately $1.0 million of secured debt financing for the second building that we acquired at an interest rate of 5.75% and a maturity date of January 1, 2012; which maturity date had been extended on a month-to-month basis. The loan obligation was split among us and the entities indirectly owned by Mr. Phelan and his wife based on respective ownership interests. The full principal balance was repaid June 6, 2013. From January 1, 2013 through the repayment date, $26,236 in interest was paid on the loan.

In January 2011, we formed a joint venture, DCT Palmiowa LLC, with Iowa Investments, LLC, a company indirectly owned by Mr. Phelan and his wife. The joint venture acquired two bulk industrial buildings, totaling approximately 0.2 million square feet, located in Riverside, California from entities indirectly owned by Mr. Phelan and his wife for approximately $11.7 million. These entities indirectly owned by Mr. Phelan and his wife had acquired the two bulk industrial buildings shortly before the sale to DCT Palmiowa LLC in order to facilitate the transaction. Pursuant to the operating agreement for the joint venture, we contributed approximately 52.6% of the initial equity capital and Iowa Investments, LLC contributed the remainder, and all distributions will be made pro rata based on the parties capital contributions. In connection with this transaction, we also provided DCT Palmiowa LLC with an approximately $7.6 million secured loan at an interest rate of 5.75% and a maturity date of January 1, 2012; which maturity date had been extended on a month-to-month basis. The full principal balance was repaid June 6, 2013. From January 1, 2013 through the repayment date, $190,240 in interest was paid on the loan.

Transactions with Related Person Approval Policy

Our corporate governance guidelines set forth in writing our transactions with related person approval policy. According to this policy, each related person transaction must be reviewed and approved in advance by the audit committee or, for contributions, acquisitions, and dispositions of real property, the investment committee; provided that if we enter into a transaction without recognizing that it constitutes a related person transaction, this approval requirement can be satisfied if the transaction is subsequently ratified by the audit committee or investment committee, as applicable. Our transactions with related person approval policy under our corporate governance guidelines covers all transactions with related parties required to be disclosed in the proxy statement under SEC rules and all other related person transactions in which the amount involved exceeds $60,000.

Our code of business conduct and ethics sets forth in writing the standards, policies and procedures that the Company follows in situations where there is a possibility of a conflict of interest. Each employee, officer or director is expected to avoid any situation in which his or her personal interests conflict, or have the appearance

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of conflicting, with those of the Company. All employees, officers and directors must promptly and fully disclose the occurrence of any situation that may amount to such conflict of interest, including the existence of a personal direct or indirect financial interest in a transaction, to our general counsel. Non-employee directors are expected to make appropriate disclosures to our board and recuse themselves from board decisions with respect to transactions involving the Company to which they are an interested party. A waiver with respect to any transaction involving a director or officer that may violate our code of business conduct and ethics may be made only by the board of directors or by the nominating and corporate governance committee and must be promptly disclosed to our stockholders in accordance with all applicable laws and regulations. Our code of business conduct and ethics may or may not cover all transactions with related parties required to be disclosed in the proxy statement under SEC rules.

DESCRIPTION OF NOTES

As used in this Description of notes, references to the Partnership, we, our, or us refer solely to DCT Industrial Operating Partnership LP and not to any of our subsidiaries, and references to the Company refer solely to DCT Industrial Trust Inc. and not to any of its subsidiaries, unless the context otherwise requires. The notes will initially be guaranteed by the Partnership s wholly owned subsidiaries that guarantee borrowings under our revolving credit facility (collectively, the Subsidiary Guarantors) and by the Company (together with the Subsidiary Guarantors, the Guarantors).

The Partnership issued the private notes and will issue the notes under an indenture among itself, the Guarantors and U.S. Bank National Association, as trustee, dated October 9, 2013. See Notice to investors. The indenture complies with the Trust Indenture Act of 1939, as amended (the Trust Indenture Act). The terms of the notes include those stated in the indenture and those made part of the indenture by reference to the Trust Indenture Act.

The following description is a summary of the key provisions of the notes and the indenture, does not purport to be complete and is subject to, and qualified in its entirety by reference to, the actual terms and provisions of the notes and the indenture, which are filed as exhibits to the registration statement to which this prospectus forms a part and which are incorporated herein by reference. We will provide copies of these documents to you upon request. Capitalized terms used but not otherwise defined herein shall have the meanings given to them in the notes, the indenture or the registration rights agreement, as applicable.

The registered holder of a note will be treated as the owner of it for all purposes. Only registered holders will have rights under the indenture.

General

The notes will be issued only in fully registered, book-entry form, in denominations of $2,000 and integral multiples of $1,000 in excess thereof, except under the limited circumstances described below under Book-entry, delivery and form. The registered holder of a note will be treated as its owner for all purposes.

If any interest payment date, stated maturity date or redemption date is not a business day, the payment otherwise required to be made on such date will be made on the next business day without any additional payment as a result of such delay. The term business day means, with respect to any note, any day, other than a Saturday, Sunday or any other day on which banking institutions in New York, New York are authorized or obligated by law or executive order to close. All payments will be made in U.S. dollars.

The notes will be fully and unconditionally guaranteed by the Guarantors on a senior unsecured basis. See Guarantees below.

The terms of the notes provide that we are permitted to reduce interest payments and payments upon a redemption of notes otherwise payable to a holder for any amounts we are required to withhold by law. For example, non-United States holders of the notes may, under some circumstances, be subject to U.S. federal withholding tax with respect to payments of interest on the notes. We will set-off any such withholding tax that we are required to pay against payments of interest payable on the notes and payments upon a redemption of notes.

Ranking

The notes and the guarantees will be our and the Guarantors senior unsecured obligations and will rank equally in right of payment with all of such entities existing and future senior indebtedness. The notes and the guarantees, however, will be effectively subordinated to all of our and the Guarantors existing and future secured indebtedness (to the extent of the value of the collateral securing such indebtedness). The notes and the

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guarantees will also be structurally subordinated to all existing and future indebtedness and other obligations, including preferred stock, of our subsidiaries that do not guarantee the notes (the Non-Guarantor Subsidiaries). As of December 31, 2013, we and the Guarantors had approximately $1.5 billion of indebtedness ($291.0 million of which was secured indebtedness), and our consolidated subsidiaries that will not guarantee the notes had $256.5 million of indebtedness and $25.0 million of other liabilities, all of which would have been structurally senior to the notes, and had $528.2 million of assets, representing 16.2% of the Company s and its consolidated subsidiaries consolidated total assets.

Except as described under Certain covenants and Merger, consolidation or sale, the indenture governing the notes will not prohibit us or the Company or any of our subsidiaries from incurring secured or unsecured indebtedness in the future, nor will the indenture afford holders of the notes protection in the event of (1) a recapitalization transaction or other highly leveraged or similar transaction involving us or the Company, (2) a change of control of us or the Company or (3) a merger, consolidation, reorganization, restructuring or transfer or lease of substantially all of our or the Company s assets or similar transaction that may adversely affect the holders of the notes. We may, in the future, enter into certain transactions such as the sale of all or substantially all of our assets or a merger or consolidation that may increase the amount of our indebtedness or substantially change our assets, which may have an adverse effect on our ability to service our indebtedness, including the notes. See Risk factors Risks related to the offering Despite our substantial indebtedness, we may still incur significantly more debt, which could exacerbate any or all of the risks related to our indebtedness, including our ability to pay the principal of or interest on the notes.

Additional notes

The notes will initially be limited to an aggregate principal amount of $275.0 million. We may from time to time, without notice to or consent of existing noteholders, create and issue additional notes having the same terms and conditions as the notes offered by this prospectus in all respects, except for the issue date and, under certain circumstances, the issue price, interest accrued prior to the issue date and first payment of interest thereon. Additional notes issued in this manner will be consolidated with and will form a single series with the previously outstanding notes, provided, however, that such additional notes may not be fungible with the previously outstanding notes for U.S. federal income tax purposes, in which case the additional notes would have a different CUSIP number than the notes offered hereby.

Interest

Interest on the notes will accrue at the rate of 4.500% per year from and including October 9, 2013 or the most recent interest payment date to which interest has been paid or provided for, and will be payable semi-annually in arrears on April 15 and October 15 of each year, beginning April 15, 2014. The interest so payable will be paid to each holder in whose name a note is registered at the close of business on the April 1 or October 1 (whether or not a business day) immediately preceding the applicable interest payment date. Interest on the notes will be computed on the basis of a 360-day year consisting of twelve 30-day months.

If any interest payment, maturity or redemption date falls on a day that is not a business day, the required payment shall be made on the next business day as if it were made on the date such payment was due and no interest shall accrue on the amount so payable from and after such interest payment, maturity or redemption date, as the case may be, to such next business day. If we redeem the notes in accordance with the terms of the indenture, we will pay accrued and unpaid interest and premium, if any, to the holder that surrenders the note for redemption. If a redemption falls after a record date and on or prior to the corresponding interest payment date, however, we will pay the full amount of accrued and unpaid interest and premium, if any, due on such interest payment date to the holder of record at the close of business on the corresponding record date (instead of the holder surrendering its notes for redemption).

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Maturity

The notes will mature on October 15, 2023 and will be paid against presentation and surrender thereof at the corporate trust office of the trustee unless earlier redeemed by us at our option as described under Redemption of the notes at the option of the Partnership below. The notes will not be entitled to the benefits of, or be subject to, any sinking fund.

Redemption of the notes at the option of the Partnership

We may redeem the notes at our option and in our sole discretion, at any time or from time to time prior to 90 days prior to the maturity date in whole or in part, at a redemption price equal to the greater of:

100% of the principal amount of the notes being redeemed; or

the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate (as defined below) plus 30 basis points,

plus, in each case, accrued and unpaid interest thereon to, but not including, the applicable redemption date; provided, however, that if the redemption date falls after a record date and on or prior to the corresponding interest payment date, we will pay the full amount of accrued and unpaid interest, if any (plus additional interest, if applicable), on such interest payment date to the holder of record at the close of business on the corresponding record date (instead of the holder surrendering its notes for redemption).

Notwithstanding the foregoing, if the notes are redeemed on or after 90 days prior to the maturity date, the redemption price will be equal to 100% of the principal amount of the notes being redeemed, plus accrued and unpaid interest thereon to, but not including, the applicable redemption date.

As used herein:

Adjusted Treasury Rate means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity (computed on the third business day immediately preceding the redemption date) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the United States Treasury security selected by the Quotation Agent as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable Treasury Price means, with respect to any redemption date, (1) the bid price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) at 4:00 P.M. on the third business day preceding such redemption date, as set forth on Reuters Page 500 (or such other page as may replace Reuters Page 500), or (2) if such page (or any successor page) is not displayed or does not contain such bid prices at such time (a) the average of the Reference Treasury Dealer Quotations obtained by the trustee for such redemption date, after excluding the highest and lowest of four such Reference Treasury Dealer Quotations, or (b) if the trustee is unable to obtain at least four such Reference Treasury Dealers Quotations, the average of all Reference Treasury Dealer Quotations obtained by the trustee.

Quotation Agent   means an independent investment banking institution of national standing appointed by the Partnership from time to time.

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Reference Treasury Dealer means, as determined by us, either (1) J.P. Morgan Securities LLC and Citibank Global Markets Inc. (or an affiliate or successor of any of the foregoing that is a Primary Treasury Dealer), a Primary Treasury Dealer selected by Wells Fargo Securities LLC or its successor and one other primary U.S. government securities dealer (a Primary Treasury Dealer) appointed by us or (2) one Primary Treasury Dealer appointed by us and three other Primary Treasury Dealers selected by the Quotation Agent; provided, however, that if any of the foregoing shall cease to be a Primary Treasury Dealer, we will substitute therefor another Primary Treasury Dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the trustee by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of the notes to be redeemed. Unless we default in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions thereof called for redemption.

If we decide to redeem the notes in part, the trustee will select the notes to be redeemed (in principal amounts of $2,000 and integral multiples of $1,000 in excess thereof) on a pro rata basis or such other method it deems fair and appropriate or is required by the depository for the notes.

In the event of any redemption of notes in part, we will not be required to:

- issue or register the transfer or exchange of any note during a period beginning at the opening of business 15 days before the mailing of a notice of redemption of the notes selected for redemption and ending at the close of business on the day of such mailing; or

- register the transfer or exchange of any note so selected for redemption, in whole or in part, except the unredeemed portion of any Note being redeemed in part.

If the paying agent holds funds sufficient to pay the redemption price of the notes on the redemption date, then on and after such date:

- such notes will cease to be outstanding;

- interest on such notes will cease to accrue; and

- all rights of holders of such notes will terminate except the right to receive the redemption price.

Such will be the case whether or not book-entry transfer of the notes in book-entry form is made and whether or not notes in certificated form, together with the necessary endorsements, are delivered to the paying agent.

We will not redeem the notes on any date if the principal amount of the notes has been accelerated, and such an acceleration has not been rescinded or cured on or prior to such date.

Certain covenants

Limitation on total outstanding debt. The notes will provide that the Partnership will not, and will not permit any Subsidiary to, incur any Debt (including, without limitation, Acquired Debt) if, immediately after giving effect to the incurrence of such Debt and the application of the proceeds from such Debt on a pro forma basis, the aggregate principal amount of all of its and its Subsidiaries outstanding Debt (determined on a consolidated basis in accordance with GAAP) is greater than 60% of the sum of the following (without duplication): (1) Total Assets of the Partnership and its Subsidiaries as of the last day of the then most recently ended fiscal quarter for

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which financial statements are available and (2) the aggregate purchase price of any real estate assets or mortgages receivable acquired, and the aggregate amount of any securities offering proceeds received (to the extent such proceeds were not used to acquire real estate assets or mortgages receivable or used to reduce Debt), by the Partnership or any Subsidiary since the end of such fiscal quarter, including the proceeds obtained from the incurrence of such additional Debt.

Secured debt test. The notes will provide that the Partnership will not, and will not permit any of its Subsidiaries to, incur any Debt (including, without limitation, Acquired Debt) secured by any Lien on any of its or any of its Subsidiaries property or assets, whether owned on the date of the indenture or subsequently acquired, if, immediately after giving effect to the incurrence of such Debt and the application of the proceeds from such Debt on a pro forma basis, the aggregate principal amount of all of its and its Subsidiaries outstanding Debt (determined on a consolidated basis in accordance with GAAP) which is secured by a Lien on any of the Partnership s or any of its Subsidiaries property or assets is greater than 40% of the sum of the following (without duplication): (1) Total Assets of the Partnership and its Subsidiaries as of the last day of the then most recently ended fiscal quarter for which financial statements are available; and (2) the aggregate purchase price of any real estate assets or mortgages receivable acquired, and the aggregate amount of any securities offering proceeds received (to the extent such proceeds were not used to acquire real estate assets or mortgages receivable or used to reduce Debt), by the Partnership or any of its Subsidiaries since the end of such fiscal quarter, including the proceeds obtained from the incurrence of such additional Debt.

Debt service test. The notes also will provide that the Partnership will not, and will not permit any of its Subsidiaries to, incur any Debt (including without limitation Acquired Debt) if the ratio of Consolidated Income Available for Debt Service to Annual Debt Service Charge for the period consisting of the four consecutive fiscal quarters most recently ended prior to the date on which such additional Debt is to be incurred shall have been less than 1.5:1 on a pro forma basis after giving effect to the incurrence of such Debt and the application of the proceeds from such Debt (determined on a consolidated basis in accordance with GAAP), and calculated on the following assumptions: (1) such Debt and any other Debt (including, without limitation, Acquired Debt) incurred by the Partnership or any of its Subsidiaries since the first day of such four-quarter period had been incurred, and the application of the proceeds from such Debt (including to repay or retire other Debt) had occurred, on the first day of such period; (2) the repayment or retirement of any other Debt of the Partnership or any of its Subsidiaries since the first day of such four-quarter period had occurred on the first day of such period (except that, in making this computation, the amount of Debt under any revolving credit facility, line of credit or similar facility will be computed based upon the average daily balance of such Debt during such period); and (3) in the case of any acquisition or disposition by the Partnership or any of its Subsidiaries since the first day of such four-quarter period, whether by merger, stock purchase or sale or asset purchase or sale or otherwise, such acquisition or disposition had occurred as of the first day of such period with the appropriate adjustments with respect to such acquisition or disposition being included in such pro forma calculation.

If the Debt giving rise to the need to make the calculation described above or any other Debt incurred after the first day of the relevant four-quarter period bears interest at a floating rate, then, for purposes of calculating the Annual Debt Service Charge, the interest rate on such Debt will be computed on a pro forma basis by applying the average daily rate which would have been in effect during the entire four-quarter period to the greater of the amount of such Debt outstanding at the end of such period or the average amount of such Debt outstanding during such period.

For purposes of the foregoing, Debt will be deemed to be incurred by the Partnership or any of its Subsidiaries whenever the Partnership or any of its Subsidiaries shall create, assume, guarantee or otherwise become liable in respect thereof.

Maintenance of total unencumbered assets. The notes will provide that the Partnership will not have at any time Total Unencumbered Assets of less than 150% of the aggregate principal amount of all of its and its subsidiaries outstanding Unsecured Debt determined on a consolidated basis in accordance with GAAP.

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Existence. Except as permitted under Merger, consolidation or sale, the Partnership will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises, and the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises. However, neither the Partnership nor the Company will be required to preserve any right or franchise if the Partnership s or the Company s board of directors (or any duly authorized committee of that board of directors), as the case may be, determines that the preservation of the right or franchise is no longer desirable in the conduct of the Partnership s or the Company s business, as the case may be.

Maintenance of properties. The notes will provide that the Partnership will cause all of its properties used or useful in the conduct of its business or the business of any of its Subsidiaries to be maintained and kept in good condition, repair and working order, normal wear and tear, casualty and condemnation excepted, and supplied with all necessary equipment and cause all necessary repairs, renewals, replacements, betterments and improvements to be made, all as in our judgment may be necessary in order for the Partnership to at all times properly and advantageously conduct its business carried on in connection with such properties. The Partnership and the Company will not be prevented from (1) removing permanently any property that has been condemned or suffered a casualty loss, if it is in our best interests, (2) discontinuing maintenance or operation of any property if, in the Company s reasonable judgment, such removal is in the best interest of the Company and is not disadvantageous in any material respect to the holders of the notes, or (3) selling or otherwise disposing for value its properties in the ordinary course of business consistent with the terms of the indenture.

Insurance. The notes will provide that the Partnership will, and will cause each of its Subsidiaries to, keep in force upon all of its and each of its Subsidiaries properties and operations insurance policies carried with responsible companies in such amounts and covering all such risks as is customary in the industry in which the Partnership and its Subsidiaries do business in accordance with prevailing market conditions and availability.

Payment of taxes and other claims. The notes will provide that the Partnership and the Company will each pay or discharge or cause to be paid or discharged before it becomes delinquent:

all material taxes, assessments and governmental charges levied or imposed on each of them or any of their respective Subsidiaries or on their respective or any such Subsidiary s income, profits or property; and

all material lawful claims for labor, materials and supplies that, if unpaid, might by law become a Lien upon their respective property or the property of any of their respective Subsidiaries. However, neither the Partnership nor the Company will be required to pay or discharge or cause to be paid or discharged any tax, assessment, charge or claim the amount, applicability or validity of which is being contested in good faith.

Provision of financial information. The notes will provide that:

Whether or not the Partnership is subject to Section 13 or 15(d) of the Exchange Act and for so long as any notes are outstanding, the Partnership will furnish to the trustee (1) all quarterly and annual reports that would be required to be filed with the SEC on Forms 10-Q and 10-K if the Partnership was required to file such reports and (2) all current reports that would be required to be filed with the SEC on Form 8-K if the Partnership was required to file such reports, in each case within 15 days after the Partnership files such reports with the SEC or would be required to file such reports with the SEC pursuant to the applicable rules and regulations of the SEC, whichever is earlier. Reports, information and documents filed with the SEC via the EDGAR system will be deemed to be delivered to the trustee as of the time of such filing via EDGAR for purposes of this covenant; provided, however, that the trustee shall have no obligation whatsoever to determine whether or not such information, documents or reports have been filed via EDGAR. Delivery of such reports, information and documents to the trustee is for informational purposes only and the trustee s receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained

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therein, including its compliance with any of its covenants relating to the notes (as to which the trustee is entitled to rely exclusively on an officer s certificate). Notwithstanding the foregoing, if permitted by the SEC, the Partnership may satisfy its obligation to furnish the reports described above by furnishing such reports filed by the Company.

If so required by Rule 144A, the Partnership and the Company will promptly furnish to the holders, beneficial owners and prospective purchasers of the notes, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) to facilitate the resale of the notes pursuant to Rule 144A.

Guarantees

The Guarantors will jointly and severally guarantee our obligations under the notes, including the due and punctual payment of principal of and premium, if any, and interest on the notes, whether at stated maturity, by declaration of acceleration, call for redemption or otherwise. The obligations of each Guarantor under its guarantee will be limited to the amount necessary to prevent such guarantee from constituting a fraudulent transfer or conveyance under applicable law. See Risk factors Risks related to the offering Federal and state statutes allow courts, under specific circumstances, to void guarantees and require holders of notes to return payments received from guarantors.

Each Guarantee will be a continuing guarantee and will inure to the benefit of and be enforceable by the trustee, the holders of the notes and their successors, transferees and assigns.

A Guarantor will be automatically and unconditionally released from its obligations under the indenture and the related guarantee:

(a) in the case of a Subsidiary Guarantor, upon the sale or other disposition of the Subsidiary Guarantor;

(b) in the case of a Subsidiary Guarantor, upon the sale or disposition of all or substantially all the assets of the Subsidiary Guarantor;

(c) upon the liquidation or dissolution of such Guarantor; provided no Default or Event of Default shall occur as a result thereof;

(d) if we exercise our legal defeasance option or our covenant defeasance option as described under Defeasance or if our obligations under the indenture are discharged in accordance with the terms of the indenture as described under Satisfaction and discharge ; or

(e) if a Guarantor ceases to guarantee the obligations of the Partnership under any indebtedness for money borrowed of the Partnership in an amount greater than $5.0 million.

provided, however, that in the case of clauses (a) and (b) above, (1) such sale or other disposition is made to a person other than the Company or any of its Subsidiaries and (2) such sale or disposition is otherwise permitted by the indenture.

If at any time after the issuance of the notes, including following any release of a Subsidiary Guarantor from its guarantee under the indenture, a Subsidiary of the Partnership (including any future Subsidiary) guarantees our indebtedness for money borrowed in an amount greater than $5.0 million, the Partnership will cause such Subsidiary to guarantee the notes by simultaneously executing and delivering a supplemental indenture in accordance with the indenture. At our request, and upon delivery to the trustee of an officer s certificate and an opinion of counsel, each stating that all conditions precedent under the indenture relating to such release have been complied with, the trustee will execute any documents reasonably requested by us evidencing such release.

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Merger, consolidation or sale

The indenture provides that the Partnership or the Company may consolidate with, or sell, lease or convey all or substantially all of our or its assets to, or merge with or into, any other entity, provided that the following conditions are met:

- the Partnership or the Company, as the case may be, shall be the continuing entity, or the successor entity (if other than the Partnership or the Company, as the case may be) formed by or resulting from any consolidation or merger or which shall have received the transfer of assets shall be domiciled in the United States, any state thereof or the District of Columbia and shall expressly assume payment of the principal of and interest on all of the notes and the due and punctual performance and observance of all of the covenants and conditions in the indenture and in the notes or the guarantees endorsed on the notes, as the case may be;

- immediately after giving effect to the transaction, no Event of Default under the indenture, and no event which, after notice or the lapse of time, or both, would become an Event of Default, shall have occurred and be continuing; and

- an officer s certificate and legal opinion covering these conditions shall be delivered to the trustee.

In the event of any transaction described in and complying with the conditions listed in the immediately preceding paragraphs in which the Partnership and/or the Company are not the continuing entity, the successor person formed or remaining shall succeed, and be substituted for, and may exercise every right and power of ours, and the Partnership and/or the Company shall be discharged from our respective obligations under the notes, the guarantee, the indenture and the registration rights agreement.

Events of default

The indenture provides that the following events are Events of Default with respect to the notes:

- default for 30 days in the payment of any installment of interest under the notes;

- default in the payment of the principal amount or redemption price due with respect to the notes, when the same becomes due and payable; provided, however, that a valid extension of the maturity of the notes in accordance with the terms of the indenture shall not constitute a default in the payment of principal;

- any guarantee by a Guarantor (excluding, in the case of a Subsidiary Guarantor, a Subsidiary Guarantor that by itself or considered together with other Subsidiary Guarantors whose guarantees cease to be in full force or effect would not also be a Significant Subsidiary) ceases for any reason to be, or is asserted in writing by us or such Guarantor not to be, in full force and effect and enforceable in accordance with its terms except to the extent contemplated by the indenture and any such guarantee;

the Partnership s failure to comply with any of our other agreements in the notes or the indenture upon receipt by the Partnership of notice of such default by the trustee or by holders of not less than 25% in aggregate principal amount of the notes then outstanding and the Partnership s failure to cure (or obtain a waiver of) such default within 60 days after it receives such notice;

failure to pay any recourse indebtedness for money borrowed by the Partnership, the Company or any Significant Subsidiary in an outstanding principal amount in excess of $50.0 million at final maturity or upon acceleration after the expiration of any applicable grace period, which recourse indebtedness is not discharged, or such default in payment or acceleration is not cured or rescinded, within 30 days after written notice to the Partnership or the Company from the trustee (or to the Partnership and the trustee from holders of at least 25% in principal amount of the outstanding notes);

certain events of bankruptcy, insolvency or reorganization, court appointment of a receiver, liquidator or trustee of the Partnership, the Company or any of their respective Significant Subsidiaries or any substantial part of their respective property, or commencement of an involuntary case or other

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proceeding against the Partnership, the Company or any Significant Subsidiary seeking liquidation, reorganization or other relief with respect to the Partnership, the Company or any Significant Subsidiary or its debts under any bankruptcy, insolvency or other similar law (which involuntary case or other proceeding remains undismissed and unstayed for 30 days).

If an Event of Default under the indenture with respect to the notes occurs and is continuing (other than an Event of Default specified in the last bullet above with respect to us, which shall result in an automatic acceleration), then in every case the trustee or the holders of not less than 25% in principal amount of the outstanding notes may declare the principal amount of all of the notes to be due and payable immediately by written notice thereof to us and the Company (and to the trustee if given by the holders). However, at any time after the declaration of acceleration with respect to the notes has been made, but before a judgment or decree for payment of the money due has been obtained by the trustee, the holders of not less than a majority in principal amount of outstanding notes may waive all defaults or Events of Default and rescind and annul such declaration and its consequences if all Events of Default, other than the non-payment of accelerated principal of (or specified portion thereof) or interest on the notes, have been cured or waived as provided in the indenture.

The indenture also provides that the holders of not less than a majority in principal amount of the outstanding notes may waive any past default with respect to the notes and its consequences, except a default:

in the payment of the principal of or interest on the notes, unless such default has been cured and we or the Company shall have deposited with the trustee all required payments of the principal of and interest on the notes; or

in respect of a covenant or provision contained in the indenture that cannot be modified or amended without the consent of the holder of each outstanding note affected thereby.

The trustee will be required to give notice to the holders of the notes of a default under the indenture unless the default has been cured or waived within 90 days; provided, however, that the trustee may withhold notice to the holders of the notes of any default with respect to the notes (except a default in the payment of the principal of or interest on the notes) if specified responsible officers of the trustee consider the withholding to be in the interest of the holders.

The indenture provides that no holders of the notes may institute any proceedings, judicial or otherwise, with respect to the indenture or for any remedy thereunder, except in the case of failure of the trustee, for 90 days, to act after it has received a written request to institute proceedings in respect of an Event of Default from the holders of not less than 25% in principal amount of the outstanding Notes, as well as an offer of reasonable indemnity. This provision will not prevent, however, any holder of the notes from instituting suit for the enforcement of payment of the principal of and interest on the notes at the respective due dates thereof.

Subject to provisions in the indenture relating to its duties in case of default, the trustee is under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any holders of the notes then outstanding under the indenture, unless the holders shall have offered to the trustee reasonable security or indemnity. The holders of not less than a majority in principal amount of the outstanding notes (or of all notes then outstanding under the indenture, as the case may be) shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or of exercising any trust or power conferred upon the trustee. However, the trustee may refuse to follow any direction which is in conflict with any law or the indenture, or which may be unduly prejudicial to the holders of the notes not joining therein.

Within 120 days after the close of each fiscal year of the Partnership, the Partnership must deliver a certificate of an officer certifying to the trustee whether or not the officer has knowledge of any default under the indenture and, if so, specifying each default and the nature and status thereof.

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Defeasance

The Partnership may, at its option and at any time, elect to have its obligations and the obligations of each Guarantor discharged with respect to the outstanding notes and guarantees (Legal Defeasance). Legal Defeasance means that the Partnership and the Guarantors shall be deemed to have paid and discharged the entire indebtedness represented by the outstanding notes and guarantees, and to have satisfied all other obligations under such notes, the guarantees and the indenture, except as to:

- the rights of holders of outstanding notes to receive payments in respect of the principal of, or interest or premium and additional interest, if any, on, such notes when such payments are due from the trust funds referred to below;
- the Partnership s obligations with respect to such notes concerning exchange and registration of transfer of notes, mutilated, destroyed, lost or stolen notes, issuing temporary notes, and the maintenance of an office or agency for payment and money for security payments held in trust;
- the rights, powers, trust, duties, and immunities of the trustee, and the Partnership s and the Guarantors obligations in connection therewith; and
- the Legal Defeasance provisions of the indenture.

In addition, the Partnership may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors released with respect to certain covenants under the indenture, including certain covenants listed under Certain covenants above, as described in the indenture (Covenant Defeasance), and thereafter any omission to comply with such obligations shall not constitute a default or an Event of Default. In the event Covenant Defeasance occurs, certain Events of Default (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) will no longer apply. Except as specified herein, however, the remainder of the indenture and such notes and guarantees will be unaffected by the occurrence of Covenant Defeasance, and the notes will continue to be deemed outstanding for all other purposes under the indenture other than for the purposes of any direction, waiver, consent or declaration or act of holders (and the consequences of any thereof) in connection with any of the defeased covenants.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- the Partnership must irrevocably deposit with the trustee, in trust, for the benefit of the holders, cash in U.S. dollars, non-callable government securities, or a combination thereof, in such amounts as will be sufficient, in the opinion of a nationally recognized investment bank, appraisal firm, or firm of independent public accountants, to pay the principal of, premium and additional interest, if any, and interest on, the outstanding notes on the stated date for payment thereof or on the redemption date of the notes, as the case may be, and the Partnership must specify whether the notes are being defeased to such stated date for payment or to a particular redemption date;

in the case of Legal Defeasance, the Partnership must deliver to the trustee an opinion of counsel confirming that:

the Partnership has received from, or there has been published by the IRS a ruling, or

since the date of the indenture, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon such opinion of counsel shall confirm that, the holders of the outstanding notes will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

in the case of Covenant Defeasance, the Partnership must deliver to the trustee an opinion of counsel confirming that the holders of the outstanding notes will not recognize income, gain or loss for U.S.

federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

no default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a default or Event of Default resulting from the borrowing of funds to be applied to such deposit (and any similar concurrent deposit relating to other indebtedness being defeased, discharged or replaced), and the granting of liens to secure such borrowings);

such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any material agreement or instrument (other than the indenture and the agreements governing any other indebtedness being defeased, discharged or replaced) to which the Partnership, the Company or any Subsidiary Guarantor is a party or by which any of them is bound;

the Partnership must deliver to the trustee an officer s certificate stating that the deposit was not made by the Partnership or a Guarantor with the intent of preferring the holders of the notes over their other creditors with the intent of defeating, hindering, delaying or defrauding any of their creditors or others; and

the Partnership must deliver to the trustee an officer s certificate and an opinion of counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Satisfaction and discharge

The indenture will be discharged and will cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the notes, as expressly provided for in the indenture) as to all outstanding notes when:

either:

all the notes theretofore authenticated and delivered (except lost, stolen or destroyed notes which have been replaced or paid and notes for whose payment money has theretofore been deposited in trust and thereafter repaid to us) have been delivered to the trustee for cancellation; or

all notes not theretofore delivered to the trustee for cancellation (1) have become due and payable or will become due and payable at their stated maturity within one year or (2) are to be called for redemption on a redemption date within one year under arrangements reasonably satisfactory to the trustee for the giving of notice of redemption by the trustee in the name, and at the expense, of the Partnership, and the Guarantors, in the case of clause (1) or (2) above, have irrevocably deposited or caused to be irrevocably deposited with the trustee or the paying agent (other than us or any of our affiliates), as applicable, as trust funds in trust cash in an amount sufficient to pay and discharge the entire indebtedness on such notes not theretofore delivered to the trustee for cancellation, for principal and interest to the date of such deposit (in the case of notes which have become due and payable) or to the maturity date or redemption date, as the case may be; provided, however, that there shall not exist, on the date of such deposit, a default or Event of Default; provided, further, that such deposit shall not result in a breach or violation of, or constitute a default under, the indenture or any other material agreement or instrument to which the Partnership is a party or to which any Guarantor is bound;

the Partnership has paid or caused to be paid all other sums payable under the indenture by the Partnership; and

the Partnership has delivered to the trustee an officer s certificate and an opinion of counsel, each stating that all conditions precedent provided for in the indenture relating to the satisfaction and discharge of the indenture have been complied with.

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Modification, waiver and meetings

Modifications and amendments of, and supplements to, the indenture (other than certain modifications, supplements and amendments for administrative purposes or for the benefit of note holders, in each case as further described below) will be permitted to be made only with the consent of the holders of not less than a majority in principal amount of all outstanding notes; provided, however, that no modification or amendment may, without the consent of the holder of each note affected thereby:

- change the stated maturity of the principal of or any installment of interest on the notes issued under such indenture, reduce the principal amount of, or the rate or amount of interest on, or any premium payable on redemption of, the notes, or adversely affect any right of repayment of the holder of the notes, change the place of payment, or the coin or currency, for payment of principal of or interest on any note or impair the right to institute suit for the enforcement of any payment on or with respect to the notes;
- reduce the above-stated percentage of outstanding notes necessary to modify or amend the indenture, to waive compliance with certain provisions thereof or certain defaults and consequences thereunder or to reduce the quorum or change voting requirements set forth in the indenture;
- modify or affect in any manner adverse to the holders the terms and conditions of our obligations in respect of the payment of principal and interest;
- modify or affect in any manner adverse to the holders of the notes the terms and conditions of the guarantees of any Guarantor in respect of the notes; or
- modify any of the foregoing provisions or any of the provisions relating to the waiver of certain past defaults or certain covenants, except to increase the required percentage to effect the action or to provide that certain other provisions may not be modified or waived without the consent of the holders of the notes.

Notwithstanding the foregoing, modifications and amendments of the indenture will be permitted to be made by the Partnership, the Guarantors and the trustee without the consent of any holder of the notes for any of the following purposes:

- to evidence a successor to us as obligor or any of the Guarantors as guarantor under the indenture;
- to add to our covenants or those of the Company or our or its respective Subsidiaries, including the Subsidiary Guarantors, for the benefit of the holders of the notes or to surrender any right or power conferred upon us, the Company or our or its respective Subsidiaries, including the Subsidiary Guarantors, in the indenture;

to add Events of Default for the benefit of the holders of the notes;

to amend or supplement any provisions of the indenture; provided, that no amendment or supplement shall materially adversely affect the interests of the holders of any notes then outstanding;

to secure the notes;

to provide for the acceptance of appointment by a successor trustee or facilitate the administration of the trusts under the indenture by more than one trustee;

to provide for rights of holders of the notes if any consolidation, merger or sale of all or substantially all of our property or assets occurs;

to cure any ambiguity, defect or inconsistency in the indenture; provided, that the action shall not adversely affect the interests of holders of the notes in any material respect;

to provide for the issuance of additional notes in accordance with the limitations set forth in the indenture;

to supplement any of the provisions of the indenture to the extent necessary to permit or facilitate defeasance and discharge of any series of the notes; provided, that the action shall not adversely affect the interests of the holders of the notes in any material respect;

make any amendment to the provisions of the indenture relating to the transfer and legending of notes; provided, however, that such amendment does not materially and adversely affect the rights of holders to transfer notes;

comply with any requirement of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;

to conform the text of the indenture, any guarantee or the notes to any provision of this Description of notes, as supplemented by the related term sheet, to the extent that such provision in this Description of notes was intended to be a verbatim recitation of a provision of the indenture, such guarantee or the notes; or

to add additional guarantors for the benefit of holders of the notes.

In addition, without the consent of any holder of the notes, the Company, or a subsidiary thereof, may directly assume the due and punctual payment of the principal of, any premium and interest on all the notes and the performance of every covenant of the indenture on our part to be performed or observed. Upon any assumption, the Company or such subsidiary shall succeed us, and be substituted for and may exercise every right and power of ours, under the indenture with the same effect as if the Company or such subsidiary had been the issuer of the notes, and the Partnership shall be released from all obligations and covenants with respect to the notes. No assumption shall be permitted unless the Company has delivered to the trustee (1) an officer s certificate and an opinion of counsel, stating, among other things, that the guarantees and all other covenants of the Company in the indenture remain in full force and effect and (2) an opinion of counsel that the holders of the notes shall have no materially adverse U.S. federal tax consequences as a result of the assumption, and that, if any notes are then listed on the New York Stock Exchange, that the notes shall not be delisted as a result of the assumption.

In determining whether the holders of the requisite principal amount of outstanding notes have given any request, demand, authorization, direction, notice, consent or waiver thereunder or whether a quorum is present at a meeting of holders of the notes, the indenture provides that notes owned by us, the Company, any Subsidiary Guarantor or any of our or their respective subsidiaries or affiliates shall be disregarded.

The indenture contains provisions for convening meetings of the holders of the notes. A meeting will be permitted to be called at any time by the trustee, and also, upon request, by us, the Company or the holders of at least 10% in principal amount of the outstanding notes, in any case upon notice given as provided in the indenture. Except for any consent that must be given by the holder of each note affected by certain modifications and amendments of the indenture, any resolution presented at a meeting or adjourned meeting duly reconvened at which a quorum is present will be permitted to be adopted by the affirmative vote of the holders of a majority in principal amount of the outstanding notes; provided, however, that, except as referred to above, any resolution with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that may be made, given or taken by the holders of a specified percentage, which is less than a majority, in principal amount of the outstanding notes may be adopted at a meeting or adjourned meeting duly reconvened at which a quorum is present by the affirmative vote of the holders of the specified percentage in principal amount of the outstanding notes. Any resolution passed or decision taken at any meeting of holders of the notes duly held in accordance with the indenture will be binding on all holders of the notes. The quorum at any meeting called to adopt a resolution, and at any adjourned meeting duly reconvened, will be holders holding or representing a majority in principal amount of the outstanding notes; provided, however, that if any action is to be taken at the meeting with respect to a consent or waiver which may be given by the holders of not less than a specified percentage in principal amount of the outstanding notes, holders holding or representing the specified percentage in principal amount of the outstanding notes will constitute a quorum.

Notwithstanding the foregoing provisions, any action to be taken at a meeting of holders of the notes with respect to any request, demand, authorization, direction, notice, consent, waiver or other action that the indenture expressly provides may be made, given or taken by the holders of a specified percentage which is less than a majority in principal amount of the outstanding notes may be taken at a meeting at which a quorum is present by the affirmative vote of holders of the specified percentage in principal amount of the outstanding notes.

Trustee

U.S. Bank National Association will initially act as the trustee, registrar, exchange agent and paying agent for the notes, subject to replacement at the Partnership s option as provided in the indenture.

If an Event of Default occurs and is continuing, the trustee will be required to use the degree of care and skill of a prudent man in the conduct of its own affairs. The trustee will become obligated to exercise any of its powers under the indenture at the request of any of the holders of the required percentage under the indenture of holders of the notes only after those holders have offered the trustee indemnity reasonably satisfactory to it.

U.S. Bank National Association is one of our creditors. As a result, it is subject to limitations on its rights to obtain payment of claims or to realize on some property received for any such claim, as security or otherwise. The trustee is permitted to engage in other transactions with the Partnership. If, however, it acquires any conflicting interest, it must eliminate that conflict or resign.

No personal liability of directors, officers, employees and shareholders

No past, present or future director, officer, employee, incorporator, shareholder or limited partner of the Partnership or any Guarantor, as such, will have any liability for any of our obligations or those of any Guarantor under the notes, the indenture, or any guarantee or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each holder of notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Book-entry, delivery and form

Except as set forth below, the notes will be issued in registered, global form in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof (the Global Notes).

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for definitive notes in registered certificated form (Certificated Notes) except in the limited circumstances described below. See Exchange of global notes for certificated notes. Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of notes in certificated form.

Depository procedures

The following description of the operations and procedures of DTC is provided solely as a matter of convenience. These operations and procedures are solely within the control of DTC and is subject to change by them. We take no responsibility for these operations and procedures and urge investors to contact the system or their participants directly to discuss these matters.

DTC has advised us that DTC is a limited-purpose trust company created to hold securities for its participating organizations (collectively, the Participants) and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic bookentry changes in accounts of its

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Participants. The Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to DTC s system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the Indirect Participants). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised us that, pursuant to procedures established by it:

(1) upon deposit of the Global Notes, DTC will credit the accounts of the Participants with portions of the principal amount of the Global Notes; and

(2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interest in the Global Notes).

Investors in the Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. The laws of some states require that certain persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of the Indirect Participants, the ability of a person having beneficial interests in a Global Note to pledge such interests to persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of interests in the Global Notes will not have notes registered in their names, will not receive physical delivery of notes in certificated form and will not be considered the registered owners or holders thereof under the indenture governing the notes for any purpose.

Payments in respect of the principal of, and interest and premium, if any, on, a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered holder under the indenture governing the notes. Under the terms of the indenture, we and the trustee will treat the persons in whose names the notes, including the Global Notes, are registered as the owners of the notes for the purpose of receiving payments and for all other purposes. Consequently, neither we, the Company, the trustee nor any agent of us or the trustee has or will have any responsibility or liability for:

(1) any aspect of DTC s records or any Participant s or Indirect Participant s records relating to or payments made on account of beneficial ownership interest in the Global Notes or for maintaining, supervising or reviewing any of DTC s records or any Participant s or Indirect Participant s records relating to the beneficial ownership interests in the Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised us that its current practice, upon receipt of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe that it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the

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responsibility of DTC, the trustee or us. Neither we nor the trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the notes, and we and the trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

DTC has advised us that it will take any action permitted to be taken by a holder of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount at maturity of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the notes, DTC reserves the right to exchange the Global Notes for legended notes in certificated form, and to distribute such notes to its Participants.

Exchange of global notes for certificated notes

A Global Note is exchangeable for a Certificated Note if:

- DTC (a) notifies us that it is unwilling or unable to continue as depository for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, we fail to appoint a successor depository;

- we, at our option, notify the trustee in writing that we elect to cause the issuance of Certificated Notes; or

- upon request from DTC if there has occurred and is continuing a default of Event of Default with respect to the notes.

In addition, beneficial interests in a Global Note may be exchanged for Certificated Notes upon prior written notice given to the trustee by or on behalf of DTC in accordance with the indenture. In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in a Global Note will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depository (in accordance with its customary procedures).

Exchange of certificated notes for global notes

Certificated Notes may be exchanged for beneficial interests in any Global Notes.

Same day settlement and payment

We will make payments in respect of the notes represented by the Global Notes (including principal, premium, if any, and interest) by wire transfer of immediately available funds to the accounts specified by DTC or its nominee. We will make all payments of principal, interest and premium, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the holders of the Certificated Notes or, if no such account is specified, by mailing a check to each such holder s registered address. The notes represented by the Global Notes are expected to trade in DTC s Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. We expect that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Notices

Except as otherwise provided in the indenture, notices to holders of the notes will be given by mail to the addresses of holders of the notes as they appear in the note register; provided that notices given to holders holding notes in book-entry form may be given through the facilities of DTC or any successor depository.

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Governing law

The indenture, the notes and the guarantees will be governed by, and construed in accordance with, the law of the State of New York.

Definitions

As used in the indenture, the following terms have the respective meanings specified below:

Acquired Debt means Debt of a person:

- existing at the time such person is merged or consolidated with or into the Partnership or any of its Subsidiaries or becomes a Subsidiary of ours; or

- assumed by the Partnership or any of its Subsidiaries in connection with the acquisition of assets from such person.

Acquired Debt shall be deemed to be incurred on the date the acquired person is merged or consolidated with or into us or any of our Subsidiaries or becomes a Subsidiary of ours or the date of the related acquisition, as the case may be.

Annual Debt Service Charge means, for any period, the interest expense of the Partnership and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP, including, without duplication (1) all amortization of debt discount and premium; (2) all accrued interest; (3) all capitalized interest; and (4) the interest component of capitalized lease obligations, but excluding (i) interest reserves funded from the proceeds of any loan, (ii) amortization of deferred financing costs, (iii) prepayment penalties, (iv) swap ineffectiveness charges and (v) any expense resulting from the discounting of any indebtedness in connection with the application of purchase accounting in connection with any acquisition.

Consolidated Income Available for Debt Service for any period means Consolidated Net Income of the Partnership and its Subsidiaries for such period, plus amounts which have been deducted and minus amounts which have been added for, without duplication:

- interest expense on Debt;

- provision for taxes;

- amortization of debt discount, premium and deferred financing costs;

- the income or expense attributable to transactions involving derivative instruments that do not qualify for hedge accounting in accordance with GAAP;

losses and gains on sales or other dispositions of properties and other investments, property valuation losses and impairment charges;

depreciation and amortization;

gains or losses on early extinguishment of debt;

all prepayment penalties and all costs or fees incurred in connection with any debt financing or amendment thereto, acquisition, disposition, recapitalization or similar transaction (regardless of whether such transaction is completed);

the effect of any non-recurring or other unusual non-cash items; and

amortization of deferred charges.

all determined on a consolidated basis in accordance with GAAP. Consolidated Income Available for Debt Service will be adjusted, without duplication, to give pro forma effect in the case of any assets having been placed in service or removed from service from the beginning of the period to the date of determination, to

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include or exclude, as the case may be, any Consolidated Income Available for Debt Service earned or eliminated as a result of the placement of the assets in service or removal of the assets from service as if the placement of the assets in service or removal of the assets from service occurred at the beginning of the period.

Consolidated Net Income for any period means the amount of net income (or loss) of the Partnership and its Subsidiaries for such period, excluding, without duplication:

extraordinary items; and

the portion of net income (but not losses) of the Partnership and its Subsidiaries allocable to noncontrolling interests in unconsolidated persons to the extent that cash dividends or distributions have not actually been received by the Partnership or one of its subsidiaries, all determined on a consolidated basis in accordance with GAAP.

Debt means, with respect to any person, any indebtedness of such person, whether or not contingent, in respect of (without duplication):

(i) indebtedness for borrowed money evidenced by bonds, notes, debentures or similar instruments;

(ii) indebtedness secured by any Lien on any property or asset owned by such person, but only to the extent of the lesser of (a) the amount of indebtedness so secured and (b) the fair market value (determined in good faith by us) of the property subject to such Lien;

(iii) reimbursement obligations in connection with any letters of credit actually issued (other than letters of credit issued to provide credit enhancement or support with respect to other of such person s or such person s Subsidiaries indebtedness otherwise reflected as Debt under this definition) or unconditional obligations to pay the deferred and unpaid purchase price of property, which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto, except any such purchase price that constitutes an accrued expense or trade payable; or

(iv) any lease of property by such person as lessee which is required to be reflected on such person s balance sheet as a capitalized lease in accordance with GAAP,

in the case of items of indebtedness under (i) through (iii) above to the extent that any such items (other than letters of credit) would appear as liabilities on such person s balance sheet in accordance with GAAP; provided, however, that the term Debt will (1) include, to the extent not otherwise included, any obligation of such person to be liable for, or to pay, as obligor, guarantor or otherwise (other than for purposes of collection in the ordinary course of business) Debt of the types referred to above of another person other than obligations to be liable for the Debt of another person solely as a result of non-recourse carveouts (it being understood that Debt shall be deemed to be incurred by such person whenever such person shall create, assume, guarantee or otherwise become liable in respect thereof) and (2) exclude any such indebtedness (or obligation referenced in clause (1) above) that has been the subject of an in substance defeasance in accordance with GAAP and Intercompany Debt that is subordinate in right of payment to the notes (or an obligation to be liable for, or to pay, Intercompany Debt that is subordinate in right of payment to the notes referenced in clause (1) above).

GAAP means generally accepted accounting principles in the United States of America in effect as of the issue date, including those set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as approved by a significant segment of the accounting profession.

Intercompany Debt means, as of any date, indebtedness and liabilities for borrowed money, secured or unsecured, to which the only parties are the Partnership, the Company or any Subsidiary of either of them as of that date.

Lien means a mortgage, deed of trust, deed to secure Debt, pledge, security interest, assignment for collateral purposes, deposit arrangement, or other security agreement, excluding any right of setoff but including, without limitation, any conditional sale or other title retention agreement, any financing lease having substantially the same economic effect as any of the foregoing, and any other like agreement granting or conveying a security interest.

Significant Subsidiary means any Subsidiary or group of Subsidiaries that meets either of the following conditions: (1) the Company and its other Subsidiaries investments in and advances to the Subsidiary exceed 10% of the Company s and its Subsidiaries total assets consolidated (determined in accordance with GAAP) as of the end of the most recent fiscal quarter for which an annual or quarterly report has been furnished to holders of the notes or filed with the SEC; or (2) the Company and its other Subsidiaries proportionate share of the total assets (after intercompany eliminations) of the subsidiary exceeds 10% of the Company s and its Subsidiaries total assets consolidated (determined in accordance with GAAP) as of the end of the most recent fiscal quarter for which an annual or quarterly report has been furnished to holders of the notes or filed with the SEC.

Subsidiary means a corporation, partnership association, joint venture, trust, limited liability company or other business entity which is required to be consolidated with the Partnership in accordance with GAAP.

Total Assets means the sum of, without duplication:

Undepreciated Real Estate Assets; and

all other assets (excluding accounts receivable and non-real estate intangible assets) of the Partnership and its Subsidiaries, all determined on a consolidated basis in accordance with GAAP.

Total Unencumbered Assets means, as of any date, the sum of, without duplication:

Undepreciated Real Estate Assets that are not subject to a Lien securing Debt; and

all other assets (excluding accounts receivable and non-real estate intangible assets) of the Partnership and its Subsidiaries that are not subject to a Lien securing Debt,

all determined on a consolidated basis in accordance with GAAP; provided, however, that, in determining Total Unencumbered Assets as a percentage of outstanding Unsecured Debt for purposes of the covenant set forth above in Certain covenants Maintenance of total unencumbered assets, all investments by the Partnership and its Subsidiaries in unconsolidated joint ventures, unconsolidated limited partnerships, unconsolidated limited liability companies and other unconsolidated entities shall be excluded from Total Unencumbered Assets to the extent that such investments would have otherwise been included.

Undepreciated Real Estate Assets means, as of any date, the cost (original acquisition cost plus capital improvements) of real estate assets and related intangibles of the Partnership and its Subsidiaries on such date, before depreciation and amortization, all determined on a consolidated basis in accordance with GAAP.

Unsecured Debt means Debt of the Partnership or any of its Subsidiaries which is not secured by a Lien on any property or assets of the Partnership or any of its Subsidiaries.

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DESCRIPTION OF THE PARTNERSHIP AGREEMENT OF

DCT INDUSTRIAL OPERATING PARTNERSHIP

General

DCT has qualified, and intends to continue to qualify, as a REIT for U.S. federal income tax purposes. We are structured as an umbrella partnership REIT, or UPREIT, under which substantially all of our current and future business is, and will be, conducted through DCTOP, which was formed under Delaware law on April 24, 2002 to acquire, own and lease properties on our behalf of DCT. This UPREIT structure generally enables us to acquire real property in exchange for OP units in DCTOP from owners who desire to defer taxable gain that would otherwise normally be recognized by them upon the disposition of their property or the transfer of their property to us in exchange for DCT s common stock or cash. These owners may also desire to achieve diversity in their investment and other benefits afforded to owners of stock in a REIT. For purposes of satisfying the Asset and Income Tests for qualification as a REIT for U.S. federal income tax purposes (see U.S. Federal Income Tax Consequences), the REIT s proportionate share of the assets and income of DCTOP will be deemed to be assets and income of the REIT.

The property owner s goals are accomplished because the owner may contribute property to DCTOP in exchange for OP units on a tax deferred basis. Further, DCTOP is structured to make distributions with respect to OP units which are equivalent to the dividend distributions made to DCT s stockholders. Finally, a limited partner in DCTOP may later redeem his, her or its OP units for shares of DCT s common stock (in a taxable transaction) or cash and achieve liquidity for his, her or its investment.

We intend to hold substantially all of our assets in DCTOP or in subsidiary entities in which DCTOP owns an interest, and we intend to make future acquisitions of real properties using the UPREIT structure. DCT is the sole general partner of DCTOP. As the sole general partner of DCTOP, DCT has the exclusive power to manage and conduct the business of DCTOP. We also own a substantial majority of the OP units of DCTOP.

The following is a summary of certain provisions of the amended and restated limited partnership agreement of DCTOP. This summary is not complete and is qualified by the specific language in the partnership agreement. You should refer to the actual partnership agreement, a copy of which we have filed as an exhibit to the registration statement of which this prospectus is a part, for more detail.

Capital Contributions

In connection with this offering and future offerings of DCT s common stock, we will transfer substantially all of the net offering proceeds to DCTOP in exchange for OP units. However, we will be deemed to have made capital contributions in the amount of the gross offering proceeds, and DCTOP will be deemed to have simultaneously paid the underwriting discounts and commissions and other costs associated with the offering.

If DCTOP requires additional funds at any time in excess of capital contributions made by us, we may borrow funds from a financial institution or other lender and lend such funds to DCTOP on the same terms and conditions as are applicable to our borrowing of such funds. In addition, we are authorized to cause DCTOP to issue partnership interests for less than fair market value if we conclude in good faith that such issuance is in the best interest of DCTOP and our company.

Fiduciary Duties

DCT s directors and officers have duties under applicable Maryland law to manage DCT in a manner consistent with the best interests of its stockholders. At the same time, DCT, as the general partner of DCTOP, has fiduciary duties under applicable Delaware law to manage DCTOP in a manner beneficial to DCTOP and its partners. DCT s duties to DCTOP and its limited partners, therefore, may come into conflict with the duties of

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DCT s directors and officers to DCT s stockholders. When deciding whether to cause DCTOP to take or decline to take any actions, DCT, as the general partner, will be under no obligation to give priority to the separate interest of (i) the limited partners in DCTOP (including, without limitation, the tax interests of our limited partners except as provided in a separate written agreement) or (ii) DCT s stockholders.

Operations

The partnership agreement requires that DCTOP be operated in a manner that will enable DCT to (1) satisfy the requirements for being classified as a REIT for U.S. federal income tax purposes, unless DCT otherwise cease s to qualify as a REIT, (2) avoid any federal income or excise tax liability, and (3) ensure that DCTOP will not be classified as a publicly traded partnership for purposes of Section 7704 of the Code, which classification could result in DCTOP being taxed as a corporation, rather than as a partnership.

Redemption Rights

The limited partners of DCTOP (other than our company) generally have the right to cause DCTOP to redeem all or a portion of their OP units for cash or, at our sole discretion, shares of DCT s common stock, or a combination of both. If we elect to redeem OP units for shares of DCT s common stock, we will generally deliver one share of DCT s common stock for each OP unit redeemed. If we elect to redeem OP units for cash, we will generally deliver cash to be paid in an amount equal to, for each redeemed OP unit, the average of the daily market price for the ten consecutive trading days immediately preceding the date we receive a notice of redemption by a limited partner. In connection with the exercise of these redemption rights, a limited partner must make certain representations, including that the delivery of shares of DCT s common stock upon redemption would not result in such limited partner owning shares in excess of DCT s ownership limits in its charter.

Subject to the foregoing, limited partners may exercise their redemption rights at any time after one year following the date of issuance of their OP units; provided, however, that a limited partner may not deliver more than two redemption notices each calendar year and may not exercise a redemption right for less than 1,000 OP units, unless the limited partner holds less than 1,000 OP units, in which case it must exercise its redemption right for all of its OP units.

Transferability of Interests

We may not (1) voluntarily withdraw as the general partner of DCTOP, (2) engage in any merger, consolidation or other business combination, or (3) transfer our general partnership interest in DCTOP (except to a wholly-owned subsidiary), unless the transaction in which such withdrawal, business combination or transfer occurs results in the limited partners receiving or having the right to receive an amount of cash, securities or other property equal in value to the amount they would have received if they had exercised their redemption rights immediately prior to such transaction or unless, in the case of a merger or other business combination, the successor entity contributes substantially all of its assets to DCTOP in return for an interest in DCTOP and agrees to assume all obligations of the general partner of DCTOP. We may also enter into a business combination or we may transfer our general partnership interest upon the receipt of the consent of a majority-in-interest of the limited partners of DCTOP. With certain exceptions, the limited partners may not transfer their interests in DCTOP, in whole or in part, without our written consent as general partner.

The partnership agreement generally provides that DCTOP will distribute cash flows from operations and net sales proceeds from disposition of assets to the partners of DCTOP in accordance with their relative percentage interests, on at least a quarterly basis, in amounts determined by us as general partner.

Similarly, the partnership agreement of DCTOP provides that income of DCTOP from operations and income of DCTOP from disposition of assets normally will be allocated to the partners of DCTOP in accordance with their relative percentage interests such that a holder of one OP unit will be allocated income for each taxable

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year in an amount equal to the amount of taxable income allocated to us in respect of a holder of one share of our common stock, subject to compliance with the provisions of Sections 704(b) and 704(c) of the Code and corresponding Treasury Regulations. Losses, if any, will generally be allocated among the partners in accordance with their respective percentage interests in DCTOP. Upon the liquidation of DCTOP, after payment of debts and obligations, any remaining assets of DCTOP will be distributed in accordance with the distribution provisions of the partnership agreement to the extent of each partner s positive capital account balance.

In addition to the administrative and operating costs and expenses incurred by DCTOP in acquiring and operating real properties, DCTOP will pay all administrative costs and expenses of our company, and such expenses will be treated as expenses of DCTOP. Such expenses will include, without limitation:

- All expenses relating to maintaining our corporate existence;
- All expenses relating to the public offering and registration of our securities;
- All expenses associated with the preparation and filing of any periodic reports by us under federal, state or local laws or regulations;
- All expenses associated with our compliance with applicable laws, rules and regulations; and
- All our other operating or administrative costs incurred in the ordinary course of its business on behalf of DCTOP.

LTIP Units

In connection with the Internalization, we established a new class of limited partnership interest in DCTOP, which we refer to as LTIP units. The LTIP units are structured as profits interests for U.S. federal income tax purposes, and we intend them to be a form of equity compensation that we can use. LTIP units are designed to offer their recipients the same long-term incentive as shares of restricted stock, while allowing them to enjoy the more favorable U.S. federal income tax treatment available for profits interests. See Executive Compensation Compensation Discussion and Analysis Long-term Equity Incentive Compensation LTIP Units for a more complete description of the LTIP units.

Tax-Matters Partner

DCT is the tax-matters partner of DCTOP, and, as such, DCT has authority to make tax elections under the Code on behalf of DCTOP.

Term

DCTOP will continue in full force and effect until December 31, 2032, or until sooner dissolved in accordance with its terms or as otherwise provided by law.

Amendment

The partnership agreement may not be amended without our consent as general partner. As general partner, we may, without the consent of the limited partners, amend the partnership agreement in any respect or merge or consolidate DCTOP with or into any other partnership or business entity in certain transactions pursuant to the partnership agreement; provided, however, that the following amendments and any other merger or consolidation of DCTOP shall require the consent of limited partners holding more than 50% of the ownership interests of all limited partners:

(a) certain amendments affecting the operation of the redemption rights for OP units, or the mechanism for converting OP units into shares of our common stock, in a manner adverse to the limited partners;

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(b) any amendment that would adversely affect the rights of the limited partners to receive the distributions payable to them under the partnership agreement, other than with respect to the issuance of additional OP units pursuant to certain provisions of the partnership agreement;

(c) any amendment that would alter DCTOP s allocations of profit and loss to the limited partners, other than with respect to the issuance of additional OP units pursuant to certain provisions of the partnership agreement; or

(d) any amendment that would impose on the limited partners any obligation to make additional capital contributions to DCTOP.

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U.S. FEDERAL INCOME TAX CONSEQUENCES

Pursuant to U.S. Internal Revenue Service Circular 230, we hereby inform you that the discussion set forth herein with respect to U.S. federal tax issues was not intended or written to be used, and such discussion cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. The following discussion was written to support the transactions or matters addressed in this prospectus. Each taxpayer should seek advice based on the taxpayer s particular circumstances from an independent tax advisor.

General

The following is a summary of certain United States federal income tax considerations relating to the exchange of private notes for exchange notes pursuant to this prospectus and the holding and disposition of exchange notes. The statements made in this section of the offering memorandum are based upon current provisions of the Internal Revenue Code and Treasury Regulations promulgated thereunder, as currently applicable, currently published administrative positions of the Internal Revenue Service and judicial decisions, all of which are subject to change, either prospectively or retroactively. We cannot assure you that any changes will not modify the statements made herein. This summary does not address all possible tax considerations that may be material to a holder of private notes or exchange notes and does not constitute legal or tax advice. Moreover, this summary does not deal with all tax aspects that might be relevant to you, as a potential holder of exchange notes, in light of your personal circumstances, nor does it deal with particular types of holders that are subject to special treatment under the federal income tax laws, such as insurance companies, tax-exempt organizations, financial institutions or broker dealers, a regulated investment company, foreign corporations or persons who are not citizens or residents of the United States except as provided below, or others who are subject to special treatment under the Internal Revenue Code. This summary assumes that the private notes and the exchange notes are held as capital assets, which generally means as property held for investment. It applies only if the private notes were acquired in the initial offering at the offering price. If the private notes were purchased at a price other than the offering price, the amortizable bond premium or market discount rules may apply which are not described in this prospectus. Holders should consult their own tax advisors regarding these possibilities.

The term U.S. Holder means any beneficial owner of the private notes or exchange notes, other than an entity treated as a partnership for U.S. federal income tax purposes, that for United States federal income tax purposes, is

- a citizen or resident of the United States;
- a corporation (including an entity treated as a corporation for United States federal income tax purposes) created or organized under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- any trust if (1) a United States court is able to exercise primary supervision over the administration of such trust and one or more United States persons have the authority to control all substantial decisions of the trust or (2) it has a valid election in place to be treated as a United States person.

The term Non-U.S. Holder shall refer to a beneficial owner of the private notes or exchange notes, other than an entity treated as a partnership for U.S. federal income tax purposes, that is not a U.S. Holder.

If a partnership (including for this purpose any entity treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a private note or exchange note, the treatment of a partner in the partnership will generally depend upon the status of the partner and upon the activities of the partnership. A holder of a private note or exchange note that is a partnership, and partners in such partnership, should consult their tax advisors about the U.S. federal income tax consequences of exchanging, holding and disposing of the private notes and exchange notes.

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This discussion is not intended to be, and should not be construed as, tax advice. We urge you, as a holder of private notes or exchange notes, to consult your tax advisor regarding the specific tax consequences to you of an exchange of private notes for exchange notes, and of your ownership and sale of exchange notes, including the federal, state, local, foreign and other tax consequences of such exchange, ownership, and sale and of potential changes in applicable tax laws.

Exchange offer

The exchange of private notes for exchange notes in the exchange offer pursuant to this prospectus will not be a taxable event for U.S. federal income tax purposes and you will have the same tax basis and holding period in the exchange notes as you had in the private notes. Furthermore, any market discount or bond premium associated with your private notes will be treated as market discount or bond premium, as applicable, with respect to your exchange notes for which you exchange the applicable private notes.

Taxation of U.S. holders.

Interest

Stated interest on the exchange notes generally will be included in the income of a U.S. Holder as ordinary income at the time such interest is received or accrued, in accordance with the U.S. Holder s regular method of tax accounting.

Disposition of the exchange notes

Upon the sale, exchange, redemption, repurchase, retirement or other disposition of a note, a U.S. Holder generally will recognize capital gain or loss equal to the difference between (i) the amount of cash proceeds and the fair market value of any property received on the disposition (except to the extent such amount is attributable to accrued but unpaid stated interest, which is taxable as ordinary income if not previously included in such holder s income) and (ii) such U.S. Holder s adjusted tax basis in the note. A U.S. Holder s adjusted tax basis in an exchange note generally will equal the cost of the private note transferred to DCTOP in exchange for such exchange note and decreased by the amount of any payments other than qualified stated interest payments.

Capital gain or loss recognized upon the disposition of an exchange note will be a long-term capital gain or loss if the exchange note was held for more than one year (including the period during which the private notes were held). Long-term capital gains to individual U.S. Holders are generally subject to preferential tax rates. The deductibility of capital losses is subject to limitations.

Medicare tax

A U.S. Holder that is an individual will be subject to a 3.8% tax on the lesser of (1) such U.S. holder s net investment income for the relevant taxable year and (2) the excess of such U.S. Holder s modified gross income for the taxable year over a certain threshold. U.S. Holders that are estates or certain trusts that do not fall into a special class of trusts that is exempt from such tax are subject to the 3.8% tax on the lesser of (A) their undistributed net investment income or (B) the excess of their adjusted gross income for the taxable year over a certain threshold. Net investment income generally would include interest on the notes and net gain from the disposition of the notes. If you are a U.S. Holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your ownership of the notes.

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Information reporting and backup withholding

We will report to U.S. Holders and to the IRS the amount of stated interest payments and payments of the proceeds from the sale, exchange, redemption, repurchase, retirement or other disposition of an exchange note made to a U.S. Holder, and the amount we withhold, if any. Under the backup withholding rules, a U.S. Holder may be subject to backup withholding at a current rate of up to 28% with respect to distributions unless the holder:

- is a corporation or comes within certain exempt categories and, when required, demonstrates that fact, or

- provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with the applicable requirements of the backup withholding rules.

A U.S. holder who does not provide us with its correct taxpayer identification number also may be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the U.S. holder s income tax liability if the required information is furnished to the IRS in a timely manner. For a discussion of the backup withholding rules as applied to non-U.S. Holders, see Taxation of Non-U.S. holders.

Taxation of non-U.S. holders

The rules governing the U.S. federal income taxation of a Non-U.S. Holder are complex and no attempt will be made herein to provide more than a summary of such rules. *Non-U.S. Holders should consult their tax advisors to determine the effect of U.S. federal, state, local and foreign tax laws, as well as tax treaties, with regard to their ownership of the exchange notes.*

Interest

A Non-U.S. Holder will be exempt from U.S. federal income and withholding taxes on payments of interest on the exchange notes so long as such payments are not effectively connected with the conduct of a trade or business in the United States by the Non-U.S. Holder (and, if required by an applicable income tax treaty, is not attributable to a U.S. permanent establishment), unless such Non-U.S. Holder is (i) a direct or indirect 10% or greater partner (as defined in section 871(h)(3) of the Internal Revenue Code) in DCTOP, (ii) a controlled foreign corporation related to DCTOP, or (iii) a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business.

In order for a Non-U.S. Holder that is an individual or corporation (or entity treated as such for U.S. federal income tax purposes) to qualify for the exemption from taxation on interest, the withholding agent (generally, the last U.S. payor or a non-U.S. payor who is a qualified intermediary or withholding foreign partnership) must have received a statement (generally made on IRS Form W-8BEN) from the individual or corporation that: (i) is signed under penalties of perjury by the beneficial owner of the exchange note, (ii) certifies that such owner is not a U.S. Holder and (iii) provides the beneficial owner s name and address. A Non-U.S. Holder that is not an individual or corporation (or an entity treated as a corporation for U.S. federal income tax purposes) holding an exchange note on its own behalf may have substantially increased reporting requirements and should consult its tax advisor.

If a Non-U.S. Holder cannot satisfy the requirements described above, payments of interest will be subject to the 30% U.S. federal withholding tax, unless the Non-U.S. Holder provides us with a properly executed (1) IRS Form W-8BEN (or other applicable form) claiming an exemption from or reduction in withholding under the benefit of an applicable income tax treaty or (2) IRS Form W-8ECI (or other applicable form) stating that interest paid on the exchange notes is not subject to withholding tax because it is effectively connected with the Non-U.S. Holder s conduct of a trade or business in the United States.

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If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on the exchange notes is effectively connected with the conduct of that trade or business, the Non-U.S. Holder will be subject to U.S. federal income tax on that interest on a net income basis in the same general manner as if the Non-U.S. Holder were a U.S. Holder unless an applicable income tax treaty provides otherwise.

In addition, if a Non-U.S. Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lesser rate under an applicable income tax treaty) of its earnings and profits, subject to adjustments, that are effectively connected with its conduct of a trade or business in the United States.

Disposition of the exchange notes

Any gain realized on the sale, redemption, exchange, retirement, repurchase or other taxable disposition of the exchange notes by a Non-U.S. Holder (except to the extent such amount is attributable to accrued but unpaid stated interest, which would be taxable as described above) will be exempt from U.S. federal income and withholding taxes unless: (i) the gain is effectively connected with the conduct of a trade or business in the United States by the Non-U.S. Holder, or (ii) if the Non-U.S. Holder is and an individual, the Non-U.S. Holder is present in the United States for 183 days or more in the taxable year and certain other requirements are met.

If a Non-U.S. Holder is described in (i) above, it will be subject to tax on the net gain derived from the sale, exchange, retirement, redemption or other taxable disposition in the same general manner as if the Non-U.S. Holder were a U.S. Holder, unless an applicable income tax treaty provides otherwise. In addition, if a Non-U.S. Holder is a foreign corporation that falls under (i) above, it may be subject to the branch profits tax equal to 30% (or lesser rate as may be specified under an applicable income tax treaty) on its earnings and profits, subject to adjustments, that are effectively connected with its conduct of a trade or business in the United States. If a Non-U.S. Holder is an individual described in (ii) above, such holder will be subject to a flat 30% tax (subject to reductions under an applicable income tax treaty) on the gain derived from the sale, exchange, retirement, redemption or other taxable disposition, which may be offset by U.S. source capital losses, even though such holder is not considered a resident of the United States.

Information reporting and backup withholding

Information reporting requirements and backup withholding generally will not apply to payments on the exchange notes to a Non-U.S. Holder if the statement described in Taxation of Non-U.S. Holders Interest is duly provided by such holder, provided that the withholding agent does not have actual knowledge that the holder is a U.S. person. Information reporting requirements and backup withholding will not apply to any payment of the proceeds of the sale of an exchange note effected outside the United States by a foreign office of a broker (as defined in applicable Treasury Regulations), unless such broker (i) is a U.S. person, (ii) derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (iii) is a controlled foreign corporation within the meaning of the Internal Revenue Code or (iv) is a U.S. branch of a foreign bank or a foreign insurance company. Payment of the proceeds of any such sale effected outside the United States by a foreign office of any broker that is described in (i), (ii) or (iii) of the preceding sentence will not be subject to backup withholding, but will be subject to the information reporting requirements unless such broker has documentary evidence in its records that the beneficial owner is a Non-U.S. Holder and certain other conditions are met, or the beneficial owner otherwise establishes an exemption. Payment of the proceeds of any such sale to or through the U.S. office of a broker is subject to information reporting and backup withholding requirements, unless the beneficial owner of the exchange note provides the statement described in Taxation of Non-U.S. Holders Interest or otherwise establishes an exemption. Any amount withheld from a payment to a holder of an exchange note under the backup withholding rules is allowable as a credit against such holder s U.S. federal income tax liability (which might entitle such holder to a refund), provided that such holder furnishes the required information to the IRS.

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PLAN OF DISTRIBUTION

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of the exchange notes. Broker-dealers may use this prospectus, as it may be amended or supplemented from time to time, in connection with the resale of exchange notes received in exchange for private notes where the broker-dealer acquired the private notes as a result of market-making activities or other trading activities. We have agreed that for a period of up to one year after the date that this registration statement is declared effective by the SEC, we will make this prospectus, as amended or supplemented, available to any broker-dealer that requests it for use in connection with any such resale.

We will not receive any proceeds from any sale of exchange notes by broker-dealers or any other persons. Broker-dealers may sell exchange notes received by broker-dealers for their own account pursuant to the exchange offer from time to time in one or more transactions in the over-the-counter market, in negotiated transactions, through the writing of options on the exchange notes or a combination of such methods of resale, at market prices prevailing at the time of resale, at prices related to the prevailing market prices or negotiated prices. Broker-dealers may resell exchange notes directly to purchasers or to or through brokers or dealers who may receive compensation in the form of commissions or concessions from any broker-dealer and/or the purchasers of the exchange notes. Any broker-dealer that resells exchange notes that were received by it for its own account pursuant to the exchange offer and any broker or dealer that participates in a distribution of the exchange notes may be deemed to be underwriters within the meaning of the Securities Act and any profit on any resale of exchange notes and any commissions or concessions received by any such persons may be deemed to be underwriting compensation under the Securities Act. By acknowledging that it will deliver and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act.

We have agreed to pay all expenses incident to our performance of, or compliance with, the registration rights agreement and will indemnify the holders of the notes (including any broker-dealers) against liabilities under the Securities Act.

By its acceptance of the exchange offer, any broker-dealer that receives exchange notes pursuant to the exchange offer agrees to notify us before using the prospectus in connection with the sale or transfer of exchange notes. The broker-dealer further acknowledges and agrees that, upon receipt of notice from us of the happening of any event which makes any statement in the prospectus untrue in any material respect or which requires the making of any changes in the prospectus to make the statements in the prospectus not misleading or which may impose upon us disclosure obligations that may have a material adverse effect on us, which notice we agree to deliver promptly to the broker-dealer, the broker-dealer will suspend use of the prospectus until we have notified the broker-dealer that delivery of the prospectus may resume and have furnished copies of any amendment or supplement to the prospectus to the broker-dealer.

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LEGAL MATTERS

Certain legal matters will be passed upon for us by Goodwin Procter LLP, Boston, Massachusetts.

EXPERTS

The consolidated financial statements and schedule of DCT Industrial Operating Partnership LP at December 31, 2013 and 2012, and for each of the three years in the period ended December 31, 2013, appearing in this Prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of DCT Industrial Trust Inc. appearing in its Annual Report (Form 10-K) for the year ended December 31, 2013 (including the schedule appearing therein), and the effectiveness of its internal control over financial reporting as of December 31, 2013 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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WHERE YOU CAN FIND MORE INFORMATION

This prospectus is part of a Registration Statement on Form S-4 that we have filed with the SEC under the Securities Act. This prospectus does not contain all of the information set forth in the Registration Statement. For further information about us and the notes, you should refer to the Registration Statement. This prospectus summarizes material provisions of contracts and other documents to which we refer you. Since this prospectus may not contain all of the information that you may find important, you should review the full text of these documents. We have filed these documents as exhibits to our Registration Statement.

DCT files and DCTOP will file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document DCT files or DCTOP will file with the SEC at the SEC s public reference rooms at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The SEC also maintains a website that contains reports, proxy and information statements, and other information regarding registrants that file electronically with the SEC (http://www.sec.gov). You can inspect reports and other information DCT files or DCTOP will file at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. In addition, DCT maintains a website that contains information about DCT and DCTOP at http://www.dctindustrial.com. Information on or accessible through our website is not a part of and is not incorporated by reference into this prospectus.

You should rely only upon the information incorporated by reference or provided in this prospectus. If information in incorporated documents conflicts with information in this prospectus, you should rely on the most recent information. We have not authorized anyone to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date of this prospectus.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The Securities and Exchange Commission allows DCT to incorporate by reference into this prospectus the information DCT files with the Commission, which means that DCT can disclose important information to you by referring you to those documents. Information incorporated by reference is an important part of this prospectus. Later information filed with the Securities and Exchange Commission will update and supersede this information. DCT incorporates by reference the documents listed below and any future filings DCT makes with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until this offering is completed:

DCT s Annual Report on Form 10-K for the year ended December 31, 2013.

To the extent that any information contained in any current report on Form 8-K, or any exhibit thereto, was furnished to, rather than filed with, the SEC, such information or exhibit is specifically not incorporated by reference in this prospectus.

You may request a copy of these filings, at no cost, by contacting Investor Relations, DCT Industrial Trust Inc., 518 17th Street, Suite 800, Denver, Colorado 80202, by telephone at 303-597-2400, by facsimile at 303-228-2201, or by e-mail at investorrelations@dctindustrial.com, or by visiting our website at www.dctindustrial.com. The information contained on our website is not part of this prospectus. Our reference to our website is intended to be an inactive textual reference only.

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INDEX TO FINANCIAL STATEMENTS

DCT INDUSTRIAL OPERATING PARTNERSHIP LP

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Report of Independent Registered Public Accounting Firm

The Partners of

DCT Industrial Operating Partnership LP and subsidiaries:

We have audited the accompanying consolidated balance sheets of DCT Industrial Operating Partnership LP and subsidiaries (the Partnership) as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income (loss), changes in capital, and cash flows for each of the three years in the period ended December 31, 2013. Our audits also included the financial statement schedule listed in the accompanying Index to Financial Statements. These consolidated financial statements and schedule are the responsibility of the Partnership s management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of DCT Industrial Operating Partnership LP and subsidiaries at December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Denver, Colorado

April 10, 2014

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DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, except unit information)

	December 31, 2013	December 31, 2012
ASSETS		
Land	$ 883,804	$ 780,235
Buildings and improvements	2,615,879	2,481,206
Intangible lease assets	82,758	78,467
Construction in progress	88,610	45,619
Total investment in properties	3,671,051	3,385,527
Less accumulated depreciation and amortization	(654,097)	(605,888)
Net investment in properties	3,016,954	2,779,639
Investments in and advances to unconsolidated joint ventures	124,923	130,974
Net investment in real estate	3,141,877	2,910,613
Cash and cash equivalents	32,226	12,696
Restricted cash	12,621	10,076
Deferred loan costs, net	10,251	6,838
Straight-line rent and other receivables, net of allowance for doubtful accounts of $2,178 and $1,251, respectively	46,247	51,179
Other assets, net	14,545	12,945
Assets held for sale	8,196	52,852
Total assets	$ 3,265,963	$ 3,057,199
LIABILITIES AND CAPITAL		
Liabilities:		
Accounts payable and accrued expenses	$ 63,281	$ 57,501
Distributions payable	23,792	21,129
Tenant prepaids and security deposits	28,542	24,395
Other liabilities	10,122	7,213
Intangible lease liability, net	20,389	20,148
Line of credit	39,000	110,000
Senior unsecured notes	1,122,407	1,025,000
Mortgage notes	290,960	317,314
Liabilities related to assets held for sale	278	940
Total liabilities	1,598,771	1,583,640

Partners Capital:

General Partner:		
OP Units, 3,379,271 and 3,002,870 issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	16,872	14,996
Limited Partners:		
OP Units, 334,547,822 and 297,284,179 issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	1,670,362	1,484,637
Accumulated other comprehensive loss	(32,077)	(37,242)
Total partners capital	1,655,157	1,462,391
Noncontrolling interests	12,035	11,168
Total capital	1,667,192	1,473,559
Total liabilities and capital	$ 3,265,963	$ 3,057,199

The accompanying notes are an integral part of these Consolidated Financial Statements.

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DCT INDUSTRIAL OPERATING PARTNERSHIP LP AND SUBSIDIARIES

Consolidated Statements of Operations

(in thousands, except per unit data)

	For the Year Ended December 31, 2013	2012	2011
REVENUES:			
Rental revenues	$ 286,218	$ 236,839	$ 211,536
Institutional capital management and other fees	2,787	4,059	4,291
Total revenues	289,005	240,898	215,827
OPERATING EXPENSES:			
Rental expenses	35,977	30,298	28,931
Real estate taxes	44,048	36,092	32,436
Real estate related depreciation and amortization	130,002	109,993	103,333
General and administrative	28,010	25,763	25,251
Casualty and involuntary conversion gain	(296)	(1,174)	