

DIVIDEND CAPITAL TRUST INC

Form 424B3

April 06, 2006

Table of Contents

FILED PURSUANT TO 424(b)(3)

REGISTRATION #333-122260

**SUPPLEMENT NO. 6, DATED APRIL 6, 2006**

**TO THE PROSPECTUS DATED JULY 12, 2005**

**OF DIVIDEND CAPITAL TRUST INC.**

We are providing this Supplement No. 6 to you in order to supplement our prospectus dated July 12, 2005. This supplement is considered a replacement of Supplement No. 1 dated August 5, 2005, Supplement No. 2 dated August 29, 2005, Supplement No. 3 dated November 15, 2005, Supplement No. 4 dated January 11, 2006 and Supplement No. 5 dated January 24, 2006. Capitalized terms used in this supplement have the same meaning as in our prospectus unless otherwise defined herein. The sub-section "Investment in Real Estate Merger with Cabot Industrial Value Fund" within the section "Recent Developments" is considered to be a replacement of the sub-section "Investment in Real Estate Significant Pending Transactions" within our prospectus. All other information in this supplement is considered to be an addition to, and should be read in conjunction with, the information in our prospectus, including the information contained in the following sections: (i) Recent Developments, (ii) Management's Discussion and Analysis of Financial Condition and Results of Operations, (iii) Quantitative and Qualitative Disclosures About Market Risk, and (iv) Financial Statements.

#### **RECENT DEVELOPMENTS**

##### **Filing of Our 2005 Annual Report on Form 10-K**

On March 16, 2006, we filed with the Securities and Exchange Commission our Annual Report on Form 10-K for the fiscal year ended December 31, 2005. This Annual Report (excluding the exhibits thereto) is attached as Annex A to this Supplement No. 6.

##### **Closing of Our Primary Offering**

The prospectus to which this Supplement No. 6 relates covers an offering up to \$1,000,000,000 in shares of our common stock. As described in more detail in the prospectus, this offering is comprised of two components: (1) an offering of up to 72,770,273 shares to the public at \$10.50 per share, which we refer to as our primary offering, and (2) an offering of up to 23,650,339 shares to participants in our distribution reinvestment plan at \$9.975 per share.

We closed our primary offering at the close of business of Monday, January 23, 2006. While we anticipate that the primary offering will be closed for the foreseeable future, we retain the right to recommence our primary offering at any time prior to June 9, 2007. We currently plan to continue offering shares through our distribution reinvestment plan. In addition, we continue to reserve the right to reallocate shares of common stock between our primary offering and our distribution reinvestment plan.

##### **Special Meetings of the Board of Directors**

On January 6, 2006, our board of directors received and accepted the resignation of Lars O. Soderberg as an independent director. In addition, on January 6, 2006, at a special meeting of the board of directors, Phillip R. Altinger was duly nominated, voted and approved as an independent director of our board of directors. Mr. Altinger will serve until the next annual meeting of shareholders in 2006. The following describes Mr. Altinger's background and experience.

*Phillip R. Altinger*, age 43, is an independent director of Dividend Capital Trust. Mr. Altinger has extensive experience in public and private equity and debt financings, mergers and acquisitions, and investment banking. Most recently he was Executive Director, Corporate Development with Seagate Technology, where he

**Table of Contents**

structured, executed, and managed various equity and debt investments, as well as M&A transactions. Prior to joining Seagate, Mr. Altinger served in numerous senior financial positions at companies including Rio Hotel and Casino, Inc., Volpe Brown Whelan & Company and Salomon Brothers. Mr. Altinger received MBA and Bachelor degrees in Mechanical Engineering and Economics from Stanford University.

On July 19, 2005, our board of directors received and accepted Robert Masten's resignation as an independent director. In addition, on July 19, 2005 at a special meeting of the board of directors, Bruce L. Warwick was duly nominated, voted and approved as an independent director of our board of directors. Mr. Warwick will serve until the next annual meeting of shareholders in 2006. The following describes Mr. Warwick's background and experience.

*Bruce L. Warwick*, age 67, is an independent director of Dividend Capital Trust. Mr. Warwick has been active in real estate construction activities since 1961 and is currently a Vice Chairman of The Related Companies, overseeing the development of various real estate development projects including office and residential properties throughout the United States. Prior to joining The Related Companies, Mr. Warwick served as Vice Chairman, Development of The Galbreath Company, overseeing development and management in the Eastern Region. Mr. Warwick received a Bachelor of Arts Degree from Colgate University in 1960.

**Investment in Real Estate*****Merger with Cabot Industrial Value Fund***

Our acquisition of the Cabot Partnership portfolio is described in Note 3 Real Estate Merger with Cabot Industrial Value Fund, Inc. and Subsequent Acquisitions and Dispositions by Cabot Industrial Value Fund, LP to the consolidated financial statements included in Annex A to this Supplement No. 6 and the terms used in this discussion have the same meanings as in Note 3. The following includes certain additional information with respect to this portfolio.

As of December 31, 2005, the Cabot Partnership portfolio was comprised of 104 industrial buildings combined for 10.9 million square feet, which are located in 12 markets throughout the United States. The following table provides additional information about the portfolio as of December 31, 2005:

<b>Market</b>	<b>Number of Buildings</b>	<b>Gross Leasable Area (in thousands)</b>	<b>Occupancy</b>
Atlanta	29	1,457	82.0%
Baltimore	3	432	100.0%
Boston	1	165	47.8%
Charlotte	3	346	95.6%
Chicago	6	1,074	98.9%
Cincinnati	11	1,497	66.3%
Columbus	3	1,213	100.0%
Dallas	29	2,249	96.5%
Los Angeles	7	725	75.9%
Miami	1	66	100.0%
New Jersey	3	483	100.0%
Seattle	8	1,199	100.0%
<b>Total</b>	<b>104</b>	<b>10,906</b>	<b>89.6%</b>

**Table of Contents**

Future minimum base rental payments due to the Cabot Partnership under non-cancelable operating leases in effect as of December 31, 2005, are as follows (dollar amounts are in thousands):

<b>Year</b>	<b>Annual Future Minimum Rents(1)</b>	<b>Percent of Portfolio</b>
2006	\$ 41,236	19.5%
2007	38,354	18.1%
2008	32,352	15.3%
2009	24,409	11.5%
2010	20,108	9.5%
Thereafter	55,235	26.1%
<b>Total</b>	<b>\$ 211,694</b>	<b>100.0%</b>

- (1) These amounts represent the current minimum rental amounts excluding reimbursements for certain operating expenses. The amount of revenue reported for purposes of complying with U.S. generally accepted accounting principles ( GAAP ) may be different due to certain non-cash GAAP adjustments.

The Cabot properties are 100% owned by the Cabot Partnership. As of December 31, 2005, no single tenant occupied 10% or more of the rentable square footage of the portfolio. These properties will be subject to competition from similar properties within their market areas and their economic performance could be affected by changes in local economic conditions. Our management believes that the properties comprising the Cabot Partnership's portfolio are adequately covered by insurance. The portfolio is subject to debt having an aggregate principle amount of approximately \$308.8 million with interest rates ranging from 4.72% to 5.16% and maturity dates ranging from January 2011 to July 2012.

---

Table of Contents

ANNEX A TO SUPPLEMENT NO. 6

---

**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-K**

---

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2005

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 000-50724

---

**DIVIDEND CAPITAL TRUST INC.**

(Exact name of registrant as specified in its charter)

---

Maryland  
(State or other jurisdiction of  
incorporation or organization)

518 Seventeenth Street, 17<sup>th</sup> Floor

Denver, CO

82-0538520  
(I.R.S. Employer

Identification Number)

80202

Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

(Address of Principal Executive Offices)

(Zip Code)

(303) 228-2200

(Registrant's Telephone Number, Including Area Code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, par value \$0.01 per share

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to be the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Aggregate market value of the voting stock held by non-affiliates: The Registrant has made an initial offering of shares of common stock on Form S-11 and three subsequent offerings of shares of common stock, the first and second of which were on Form S-3 and the third of which was on Form S-11. The number of shares held by non-affiliates as of June 30, 2005 was 96,685,220. Since no established market for such shares exists, there is no market value for such shares. In the first and second offerings, each share was originally sold for \$10.00 per share and, in the third and fourth offerings, each share was sold for \$10.50 per share.

As of March 7, 2006, there were 150,318,655 shares of the Registrant's common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's proxy statement for the annual shareholders meeting to be held in 2006 are incorporated by reference in Part III and certain sections of Part II.



**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I</u></b>	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	4
Item 1B. <u>Unresolved Staff Comments</u>	21
Item 2. <u>Properties</u>	22
Item 3. <u>Legal Proceedings</u>	24
Item 4. <u>Submission of Matters to a Vote of Shareholders</u>	24
<b><u>PART II</u></b>	
Item 5. <u>Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities</u>	25
Item 6. <u>Selected Financial Data</u>	29
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 7A. <u>Quantitative and Qualitative Disclosure about Market Risk</u>	48
Item 8. <u>Financial Statements and Supplementary Data</u>	49
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	50
Item 9A. <u>Controls and Procedures</u>	50
Item 9B. <u>Other Information</u>	50
<b><u>PART III</u></b>	
Item 10. <u>Directors and Executive Officers of the Registrant</u>	51
Item 11. <u>Executive Compensation</u>	51
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters</u>	51
Item 13. <u>Certain Relationships and Related Transactions</u>	51
Item 14. <u>Principal Accounting Fees and Services</u>	51
<b><u>PART IV</u></b>	
Item 15. <u>Exhibits, Financial Statement Schedules</u>	52

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

We make statements in this Form 10-K that are considered forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act ), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ), which are usually identified by the use of words such as will, anticipates, believes, estimates, expects, projects, plans, intends, should or similar expressions. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995 and are including this statement for purposes of complying with those safe harbor provisions. These forward-looking statements reflect our current views about our plans, strategies and prospects, which are based on the information currently available to us and on assumptions we have made. Although we believe that our plans, intentions and expectations as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions or expectations will be achieved. We have discussed in this Form 10-K some important risks, uncertainties and contingencies which could cause our actual results, performance or achievements to be materially different from the forward-looking statements we make in this document.

We assume no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our reports and documents filed with the Securities Exchange Commission, or SEC, and you should not place undue reliance on those statements.



---

**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**Overview**

Dividend Capital Trust Inc. was formed as a Maryland corporation in April 2002 in order to invest in commercial real estate properties, consisting primarily of high-quality, generic distribution warehouses and light industrial properties leased to creditworthy corporate customers. We have qualified, and intend to continue to qualify, as a real estate investment trust ( REIT ) for federal tax purposes. We are structured as an umbrella partnership REIT ( UPREIT ) under which substantially all of our current and future business is, and will be, conducted through a majority owned and controlled subsidiary, Dividend Capital Operating Partnership LP (our partnership), a Delaware limited partnership, for which Dividend Capital Trust is the sole general partner. As used herein, Dividend Capital Trust , we and us refer to Dividend Capital Trust Inc. and its consolidated subsidiaries and partnerships except where the context otherwise requires.

Our day-to-day activities are managed by Dividend Capital Advisors LLC (our advisor), an affiliate, under the terms and conditions of an advisory agreement. Our advisor is currently majority owned and/or controlled by three of our directors and certain officers and/or their affiliates and other third parties. In addition, under the terms of certain dealer manager agreements, Dividend Capital Securities LLC (the Dealer Manager ) serves as the dealer manager of our public and private offerings. The Dealer Manager is also majority owned and/or controlled by three of our directors and certain officers and/or their affiliates and other third parties. Our advisor and its affiliates, including the Dealer Manager, receive various forms of compensation, reimbursements and fees for services relating to our public and private offerings and for the investment and management of our real estate assets.

Currently, there are no employees of Dividend Capital Trust and its subsidiaries. All management and administrative personnel responsible for conducting our business are currently employed by our advisor and the Dealer Manager. Currently, our advisor and its affiliates have over 90 full-time employees engaged in business activities on our behalf.

**Corporate Objectives**

We invest in commercial real estate properties consisting primarily of high-quality, generic distribution warehouses and light industrial properties leased to creditworthy corporate customers. These facilities are generally located in what we believe to be the top 26 distribution and logistics markets in the United States. Such properties include properties which are under development or construction, newly constructed or have been constructed and have operating histories. In addition, we have acquired, and may continue to acquire, properties with some level of vacancy at the time of closing.

Our corporate objectives are:

To pay consistent quarterly cash distributions to our investors and to increase the amount of such distributions over time;

To manage risk in order to preserve, protect and return our shareholders' capital contributions; and

To ultimately list our common stock on a national securities exchange or an over-the-counter market, or complete a sale or merger of Dividend Capital Trust in a transaction which provides our shareholders with securities of a publicly traded company or sell substantially all of our properties for cash or other consideration and to realize capital appreciation for our shareholders in connection with any such transaction or such listing; if we do not complete such a transaction or obtain such listing of our shares by February 2013, our articles of incorporation requires us to begin selling our properties and other assets and distribute the net proceeds to our shareholders.

## Table of Contents

We intend to achieve these objectives by continuing to build an industrial real estate operating company that owns, develops and operates a high quality, diversified portfolio of bulk distribution and light industrial properties in the leading distribution and logistics markets. We will continue to build our portfolio through our acquisition program and selective investment in development joint ventures. In connection with our objective to provide a liquidity event to our shareholders, we continue to evaluate and consider various transactions designed to effect such liquidity, including internalizing our advisor and/or listing our common stock, and the optimal timing of such transactions.

### **Investment Strategy**

We have developed and implemented a comprehensive investment strategy which includes the following four principal components:

- I. Selection of target markets and submarkets;
- II. Focus primarily on generic bulk distribution and light industrial facilities;
- III. Achievement of portfolio diversification in terms of markets, customers, industry exposure and lease rollovers; and
- IV. Emphasis on creditworthy national, regional and local customers.

***I. Target Market and Submarket Selection*** We have identified target markets which we believe will continue to have growing demand for distribution space because of one or more of the following characteristics:

Major ports of entry including air, truck or seaport related entries. Target markets with these characteristics include Los Angeles, Northern New Jersey, Miami, Houston and Memphis;

Strategically located, regional distribution markets with excellent interstate highway connections. Target markets with these characteristics include Atlanta, Indianapolis, Columbus, Dallas and San Antonio; and

Markets with a large population base within a one thousand mile radius. Target markets with these characteristics include Chicago, Cincinnati, and Nashville.

***II. Generic Bulk Distribution and Light Industrial Facilities*** Within the industrial real estate sector, generic bulk distribution warehouses and light industrial properties have been selected for their cash flow characteristics including stability, low turnover costs, re-leasability due to their generic design and their liquidity given institutional demand for these types of industrial properties. We may also, to a limited extent, invest in service center or flex properties. Although the characteristics of individual investments may vary, typical physical characteristics are summarized below.

	<b>Bulk Distribution</b>	<b>Light Industrial</b>
Building size (square feet)	150,000 to 1 million	75,000 to 150,000
Clear height (feet)	24 to 36	18 to 26
Loading	Dock high	Dock high
Truck court depth (feet)	90 - 200	90 - 120
Building depth (feet)	200 - 600	90 - 200
Percentage office space	2% - 10%	10% - 25%
Primary use	Distribution	Distribution/Light Assembly

***III. Portfolio Diversification*** Our investment strategy includes building a high-quality portfolio that is greatly diversified by geography, customers, industry and lease rollover as more fully described below:

## Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

*Geographic Diversity:* Establish and maintain a significant presence in what we believe to be the top 26 industrial markets throughout the United States while avoiding significant concentration in any one market.

## **Table of Contents**

*Customer Diversity:* Maintain our portfolio so that no single customer accounts for more than five percent of our total rental income.

*Industry Exposure:* Maintain broad-based exposure to multiple industries within our customer base.

*Lease Rollovers:* Have no more than approximately 20% of customer leases terminating or expiring in any year.

**IV. Creditworthy National, Regional and Local Customers** Our investment strategy includes investing in high-quality real estate which is leased to creditworthy corporate customers which operate nationally, regionally, or locally. As of December 31, 2005, we owned 40.3 million square feet of distribution space, which was leased to over 500 customers.

## **2005 Acquisition Activity**

During the year ended December 31, 2005, we acquired 158 properties (104 of which were acquired in the Cabot merger, which is discussed in more detail in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ) located in 18 different markets, including 17 of our target markets, for a total estimated cost of approximately \$1.2 billion, including acquisition fees paid to our advisor. These properties were acquired using net proceeds from our public and private equity offerings, proceeds from our revolving credit facility and short-term, unsecured debt (which, as of December 31, 2005, had been substantially repaid with net proceeds from our offerings), and the assumption of approximately \$434.1 million in mortgage debt. See Note 18 Segment Information to the consolidated financial statements for detailed market segment information including rental revenues, property net operating income and total assets by market segment.

## **Competition**

We believe the current market for industrial real estate acquisitions to be extremely competitive. We compete for real property investments with pension funds and their advisors, bank and insurance company investment accounts, other real estate investment trusts, real estate limited partnerships, individuals and other entities engaged in real estate investment activities, some of which have greater financial resources than we do.

In addition, we believe the leasing of real estate to be highly competitive. We experience competition for customers from owners and managers of competing properties. As a result, we may have to provide free rent, incur charges for tenant improvements or offer other inducements, all of which may have an adverse impact on our results of operations.

## **Website Address**

Access to copies of our quarterly and annual reports may be obtained free of charge from our website at [www.dividendcapital.com](http://www.dividendcapital.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act may be obtained free of charge from the SEC's website at [www.sec.gov](http://www.sec.gov) when we file such material with, or furnish it to, the SEC. Information contained on our website is not and should not be deemed a part of this annual report or any other report or filing filed with the SEC.

## **ITEM 1A. RISK FACTORS**

An investment in our company involves a number of risks. You should specifically consider the following:

### **INVESTMENT RISKS**

*There is no current public trading market for our common stock.*

There is no current public market for the common stock and we have no obligation or immediate plans to apply for quotation or listing in any public securities market. Although we continue to evaluate and consider opportunities to establish a public market for our common stock, there can be no assurance that a public market will ever exist. It will therefore be very difficult for our shareholders to sell their shares promptly or at all. Even



## **Table of Contents**

if our shareholders are able to sell their shares, the absence of a public market may cause the price received for any common stock sold to be less than the proportionate value of the real estate we own or less than the price our shareholders paid.

***We currently do not have research analysts reviewing the performance of our company.***

We do not have research analysts reviewing the performance of our company or our securities on an ongoing basis. Therefore, we do not have an independent review of our performance and value of our common stock relative to publicly traded companies.

***Our shareholders are limited in their ability to sell their shares pursuant to our share redemption program.***

Our share redemption program may provide our shareholders with a limited opportunity to redeem their shares after they have held them for a period of one year. However, our board of directors reserves the right to suspend or terminate the share redemption program at any time. In addition, our share redemption program contains certain restrictions and limitations. Common stock may be redeemed quarterly on a pro rata basis. Subject to funds being available, the number of shares redeemed during any calendar year will be limited to the lesser of (1) three percent (3%) of the weighted average number of shares outstanding during the prior calendar year, and (2) the number of shares we can redeem with the proceeds we receive from the sale of common stock under our distribution reinvestment plan. Therefore, in making a decision to purchase our common stock, investors should not assume that they will be able to sell any of their shares back to us pursuant to our share redemption program.

***We have a limited operating history.***

Dividend Capital Trust was formed as a Maryland corporation on April 12, 2002 in order to own, operate and develop industrial real estate properties. We have a limited history of operations that investors are able to evaluate in making a decision to purchase or sell our common stock.

***We depend on key personnel.***

Our success depends to a significant degree upon the continued contributions of certain key personnel, including but not limited to Daryl H. Mechem, Evan H. Zucker, James D. Cochran, James R. Mulvihill, John A. Blumberg, Matthew T. Murphy, Thomas G. Wattles and Thomas I. Florence, each of whom would be difficult to replace. We do not have employment agreements with any of our key personnel, and we currently do not have key man life insurance on any person. If any of our key personnel were to cease employment with us, our operating results could suffer. We also believe that our future success depends, in large part, upon our ability to hire and retain highly skilled managerial, operational and marketing personnel. Competition for such personnel is intense, and we cannot assure our shareholders that we will be successful in attracting and retaining such skilled personnel.

***We currently utilize our advisor for selection of properties and we rely on our board of directors for ultimate approval of the investment of offering proceeds.***

Our ability to pay distributions and achieve our other investment objectives is partially dependent upon the performance of our advisor in the acquisition of real estate properties, the operation of such properties and the determination of any financing arrangements. Our board of directors, which must approve all property acquisitions, has broad discretion to monitor the performance of our advisor, as well as to determine the manner in which the net offering proceeds from our public and private offerings are invested. Our board of directors may delegate to our investment committee, which is comprised of three directors, two of whom are independent directors, the authority to approve individual property acquisitions or developments of up to \$25 million. All acquisitions or developments in excess of \$25 million must be approved by our board of directors, including a majority of the independent directors. As a result, our shareholders must rely on our advisor to identify properties and propose transactions and on the board of directors to oversee and approve such transactions.

## **Table of Contents**

### ***Our advisor will face conflicts of interest relating to time management.***

Our advisor is currently pursuing other business opportunities with third parties. Managers of our advisor are currently engaged in other real estate activities, including acquisition and development of commercial and residential real estate in the United States and Mexico. We are not able to estimate the amount of time that the managers of our advisor will devote to our business. As a result, the managers of our advisor may have conflicts of interest in allocating their time between our business and these other activities. During times of intense activity in other programs and ventures, the time they devote to our business may decline and be less than we would require. We expect that as our real estate activities expand, our advisor will attempt to hire additional employees who would devote substantially all of their time to the business of Dividend Capital Trust and its affiliates. However, there can be no assurance that our advisor will devote adequate time to our business activities.

### ***Our advisor may face conflicts of interest relating to the purchase and leasing of properties.***

We may buy properties at the same time as other entities that are affiliated with our advisor are buying properties. There is a risk that our advisor will choose a property that provides lower returns to us than a property purchased by another entity affiliated with our advisor. We may acquire properties in geographic areas where other affiliates of our advisor own properties. If one of the entities affiliated with our advisor attracts a customer that we are competing for, we could suffer a loss of revenue due to delays in locating another suitable customer.

### ***Our advisor will face conflicts of interest relating to joint ventures with affiliates.***

We may enter into joint ventures with third parties, including entities that are affiliated with our advisor, such as Dividend Capital Total Realty Trust Inc., for the acquisition, development and improvement of properties. We may also purchase and develop properties directly or in joint ventures or partnerships, co-tenancies or other co-ownership arrangements with the sellers of the properties, affiliates of the sellers, developers or other persons. Such investments may involve risks not otherwise present with a direct investment in real estate, including, for example:

The possibility that our venture partner, co-tenant or partner in an investment might become bankrupt;

That such venture partner, co-tenant or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals; or

That such venture partner, co-tenant or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives.

Actions by such a venture partner or co-tenant might have the result of subjecting the property to liabilities in excess of those contemplated and may have the effect of reducing our shareholders' returns.

Under certain joint venture arrangements, neither venture partner may have the power to control the venture, and an impasse could be reached, which might have a negative influence on the joint venture and decrease potential returns to our shareholders. In the event that a venture partner has a right of first refusal to buy out the other partner, it may be unable to finance such buy-out at that time. It may also be difficult for us to sell our interest in any such joint venture or partnership or as a co-tenant in property. In addition, to the extent that our venture partner or co-tenant is an affiliate of our advisor, certain conflicts of interest will exist.

### ***Our advisor may have conflicting fiduciary obligations if we acquire properties with its affiliates.***

Our advisor may cause us to acquire an interest in a property through a joint venture with its affiliates. In these circumstances, our advisor will have a fiduciary duty to both us and its affiliates participating in the joint venture. The resolution of this conflict of interest may cause our advisor to sacrifice our best interest in favor of the seller of the property and therefore, we may enter into a transaction that is not in our best interest. The resolution of this conflict of interest may negatively impact our financial performance.

## **Table of Contents**

***The fees we pay to our advisor, the Dealer Manager and other affiliates were not determined on an arm's-length basis and therefore they may not be on the same terms we could achieve from a third-party.***

The compensation paid to our advisor, the Dealer Manager and other affiliates for services they provide us was not determined on an arm's-length basis. All agreements, contracts or arrangements with our affiliates were not negotiated at arm's length. Such agreements include, but are not limited to, our Advisory Agreement with our advisor, our dealer manager agreements with the Dealer Manager and our Property Management and Leasing Agreement with our property manager. These agreements may contain terms that are not in our best interest and may not otherwise be applicable if we entered into arm's-length agreements.

***We cannot predict the amounts of compensation to be paid to our advisor and our other affiliates.***

Because the fees that we will pay to our advisor and our other affiliates are based in part on the level of our business activity, it is not possible to predict the amounts of compensation that we will be required to pay these entities. In addition, because key employees of our affiliates are given broad discretion to determine when to consummate a transaction, we rely on these key persons to dictate the level of our business activity. Furthermore, the fees paid to our affiliates will reduce funds available for distribution, and therefore we cannot predict precisely how such fees will impact our distributions.

***Our properties are concentrated predominantly in the industrial real estate sector.***

Our properties are concentrated predominantly in the industrial real estate sector. As a result of this concentration, we may be adversely affected by changes to the following factors within the industrial real estate sector: (i) economic climate; (ii) local conditions, such as oversupply or a reduction in the demand for industrial space; (iii) competition from other properties; (iv) increased cost of compliance with regulations; (v) the potential for liability under applicable laws; (vi) increased operating costs; and (vii) our ability to provide adequate maintenance and insurance.

***The Dealer Manager was recently formed and has not participated in many similar offerings.***

The Dealer Manager was formed in December 2001 and has participated in a limited number of securities offerings which include our public offerings as well as the public offerings of affiliates of Dividend Capital Trust, including Dividend Capital Realty Income Fund and Dividend Capital Realty Income Allocation Fund. Because the Dealer Manager has limited experience in prior offerings, it may be difficult to evaluate its ability to manage our public and private offerings.

***The Dealer Manager, which is affiliated with us, has not and will not make an independent review of us or any prospectus for any of our offerings.***

The Dealer Manager is one of our affiliates and has not and will not make an independent review of us or any offering under any prospectus for which we have sold shares of our common stock. Accordingly, investors do not and will not have the benefit of an independent review of the terms of any offering. Further, the due diligence investigation of us by the Dealer Manager cannot be considered to be an independent review and, therefore, may not be as meaningful as a review conducted by an unaffiliated broker-dealer or investment banker. In addition, a substantial portion of the proceeds of any offering will be paid to the Dealer Manager for managing the offering, including selling commissions, a dealer manager fee and marketing and due diligence expense reimbursements.

***We have not established the offering price of our common stock based on an appraised value of our properties.***

We have not obtained an appraisal of our properties in connection with any offering. Our board of directors determined the selling price of the common stock; however, such price may have bore no relationship to property appraisals or to any established criteria for valuing our issued or outstanding common stock. Our board of directors determined the price of our shares for our prior offerings by considering a number of factors including, but not limited to: our historic, current and anticipated dividend yields; yields provided by similar and other real



## **Table of Contents**

estate investments; our current and anticipated operating results; the quality, size, diversity and location of properties in our portfolio; the quality and diversity of our tenant base; our existing and anticipated debt structure; and our progress in executing our investment and operating strategy.

***If we have not listed our stock for public trading or created an alternative liquidity event for our shareholders by February 2013, then we will take steps to liquidate our assets.***

If we have not listed our common stock on a national securities exchange or an over-the-counter market, completed a sale or merger of Dividend Capital Trust in a transaction which provides our shareholders with a combination of cash and/or securities of a publicly traded company or sold substantially all of our properties for cash or other consideration by February 2013, our articles of incorporation require us to begin selling our properties and other assets and to distribute the net proceeds to our shareholders. Various economic and political conditions existing at the time we liquidate our assets may adversely affect our ability to sell assets at favorable prices. As a result, there can be no assurance that we would be able to sell our assets at prices which are consistent with our estimate of the fair market value of our properties or that would provide our shareholders with any particular return.

***A limit on the number of shares a person may own may discourage a takeover or business combination.***

Our articles of incorporation restrict direct or indirect ownership by one person or entity to no more than 9.8% of the outstanding shares of any class or series of our stock. This restriction may discourage a change of control of Dividend Capital Trust and may deter individuals or entities from making tender offers for common stock on terms that might be financially attractive to shareholders or which may cause a change in our management. This ownership restriction may also prohibit business combinations that would have otherwise been approved by our board of directors and shareholders.

***Our current shareholders' interests in Dividend Capital Trust may be diluted if we issue additional common stock.***

Our shareholders do not have preemptive rights to any common stock issued by Dividend Capital Trust in the future. Therefore, in the event that we (1) sell common stock in the future, including those issued pursuant to the distribution reinvestment plan, (2) sell securities that are convertible into common stock, (3) issue common stock in a private offering to institutional investors, (4) issue shares of common stock upon the exercise of the options granted to our independent directors or employees of our advisor and Dividend Capital Property Management LLC (our property manager) or warrants issued or that may be issued to the Dealer Manager or to participating broker-dealers, or (5) issue common stock to sellers of properties acquired by us in connection with an exchange of limited partnership interests in our partnership or one of its subsidiaries, existing shareholders and investors purchasing shares in any offering will experience dilution of their percentage ownership in Dividend Capital Trust. Depending on the terms of such transactions, most notably the offer price per share, which may be less than the price paid per share in any previous offering, and the value of our properties, existing shareholders might also experience a dilution in the book value per share of their investment in Dividend Capital Trust.

***Our articles of incorporation permit our board of directors to issue stock with terms that may subordinate the rights of our common shareholders or discourage a third-party from acquiring us in a manner that could result in a premium price to our shareholders.***

Our board of directors may classify or reclassify any unissued common stock or preferred stock and establish the preferences, conversion or other rights, voting powers, restrictions, limitations as to cash distributions and other distributions, qualifications and terms or conditions of redemption of any such stock. Thus, our board of directors could authorize the issuance of preferred stock with terms and conditions that could have priority as to distributions and amounts payable upon liquidation over the rights of the holders of our common stock. Such preferred stock could also have the effect of delaying, deferring or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might otherwise provide a premium price to holders of our common stock.

## **Table of Contents**

***Our board of directors has broad control over our operations and our shareholders will have limited control over changes in our policies and operations.***

Our board of directors determines our major policies, including our policies regarding financing, growth, debt capitalization, REIT qualification, distributions, acquisitions of properties and acquisitions of businesses (including the business of our advisor or property manager). Our board of directors may amend or revise these and other policies without a vote of the shareholders. Under the Maryland General Corporation Law and our articles of incorporation, our shareholders have a right to vote only on limited matters. Our board's broad discretion in setting policies and our shareholders' inability to exert control over those policies increases the uncertainty and risks our shareholders face.

***If we do not have sufficient capital resources from equity and debt financings for acquisitions of new properties or other assets because of our inability to retain earnings, our growth may be limited.***

In order to maintain our qualification as a REIT, we are required to distribute to our shareholders at least 90% of our taxable income. This requirement limits our ability to retain income or cash flow from operations to finance the acquisition of new properties. We will explore acquisition opportunities from time to time with the intention of expanding our operations and increasing our profitability. We anticipate that we may use debt and equity financing for such acquisitions. Consequently, if we cannot obtain debt or equity financing on acceptable terms, our ability to acquire new properties and expand our operations will be adversely affected.

***Distributions payable by REITs do not qualify for the reduced tax rates that apply to other corporate distributions.***

Tax legislation enacted in 2003 generally reduces the maximum tax rate for distributions payable by corporations to individuals to 15% through 2008. Distributions payable by REITs, however, generally continue to be taxed at the normal rate applicable to the individual recipient, rather than the 15% preferential rate. Although this legislation does not adversely affect the taxation of REITs or distributions paid by REITs, the more favorable rates applicable to regular corporate distributions could cause investors who are individuals to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay distributions, which could adversely affect the value of the stock of REITs, including our common stock.

***Payment of fees to our advisor and its affiliates will reduce cash available for investment and distribution.***

Our advisor and its affiliates will perform services for us in connection with the offer and sale of the common stock, the selection and acquisition and disposition of our properties, and the management and leasing of our properties. They will be paid substantial fees for these services, which will reduce the amount of cash available for investment in properties and distribution to shareholders. For additional information about these fees, see Note 13 Related Party Transactions to the consolidated financial statements.

***The availability and timing of cash distributions is uncertain.***

We expect to pay quarterly distributions to our shareholders. However, we bear all expenses incurred by our operations, which are deducted from cash funds generated by operations prior to computing the amount of cash distributions to be distributed to our shareholders. In addition, our board of directors, in its discretion, may retain any portion of such funds for working capital. We cannot assure our shareholders that sufficient cash will be available to pay distributions to them.

***If we are unable to find suitable investments, we may not be able to achieve our investment objectives or pay distributions.***

Our ability to achieve our corporate objectives, including the payment of distributions, depends upon the performance of our advisor in the acquisition of our investments and the determination of any financing arrangements and upon the performance of our operating professionals and to maintain our customer base,

---

**Table of Contents**

maintain strong occupancies and negotiate favorable leasing arrangements. Except for the investments described in our previous filings, our shareholders will have no opportunity to evaluate the terms of transactions or other economic or financial data concerning our investments. You must rely entirely on the management abilities of our advisor, the property managers our advisor selects and the oversight by our board of directors. We cannot be sure that our advisor will be successful in obtaining suitable investments on financially attractive terms or that, if our advisor makes investments on our behalf, our objectives will be achieved. The more capital we raise in any offering, the greater will be our challenge to invest all of the net offering proceeds on attractive terms. If we, through our advisor, are unable to find suitable investments promptly, we will hold the proceeds from any offering in an interest-bearing account or invest the proceeds in short-term, investment-grade investments (which are not likely to earn as high a return as we expect to earn on our real estate investments) and may, ultimately, liquidate. In such an event, our ability to pay distributions to our shareholders would be adversely affected.

***We may have difficulty funding our distributions with funds provided by our operations.***

As a growing company, to date we have funded our quarterly distributions to investors with funds from operations and, to a lesser extent, with borrowings under our credit facility and other borrowings. Our long-term corporate strategy is to fund the payment of quarterly distributions to our shareholders entirely from funds from our operations. However, if we are unsuccessful in deploying any offering proceeds we raise on an effective and efficient basis, we may continue to fund our quarterly distributions to investors from a combination of funds from operations and financing proceeds. In the event we are unable to consistently fund future quarterly distributions to investors entirely from our funds from operations, the value of our shareholders' shares upon the possible listing of our stock, the sale of our assets or any other liquidity event may be negatively impacted.

***If we invest in a limited partnership as a general partner we could be responsible for all liabilities of such partnership.***

In some joint ventures or other investments we may make, if the entity in which we invest is a limited partnership, we may acquire all or a portion of our interest in such partnership as a general partner. As a general partner, we could be liable for all the liabilities of such partnership. Additionally, we may also be required to take our interests in other investments as a non-managing general partner as in the case of our initial investment. Consequently, we would be potentially liable for all such liabilities without having the same rights of management or control over the operation of the partnership as the managing general partner or partners may have. Therefore, we may be held responsible for all of the liabilities of an entity in which we do not have full management rights or control, and our liability may far exceed the amount or value of investment we initially made or then had in the partnership.

***Actions of our joint venture partners could negatively impact our performance.***

We are likely to enter into additional joint ventures with third parties to acquire, develop or improve properties. We may also purchase and develop properties directly or in joint ventures or through partnerships, co-tenancies or other co-ownership arrangements. Such investments may involve risks not otherwise present with other methods of investment in real estate, including, but not limited to:

the possibility that our co-venturer, co-tenant or partner in an investment might become bankrupt;

that such co-venturer, co-tenant or partner may at any time have economic or business interests or goals which are or which become inconsistent with our business interests or goals; or

that such co-venturer, co-tenant or partner may be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives.

Any of the above might subject a property to liabilities in excess of those contemplated and thus reduce our shareholders' returns.

## **Table of Contents**

### ***We are uncertain of our sources for funding our future capital needs.***

Substantially all of the gross offering proceeds from our fourth public offering will be used for investment in properties and for payment of various fees and expenses. In addition, we do not anticipate that we will maintain any permanent working capital reserves. Accordingly, in the event that we develop a need for additional capital in the future for the improvement of our properties or for any other reason, we cannot assure our shareholders that such funding will be available to us.

### ***Increases in interest rates could increase the amount of our debt payments and adversely affect our ability to make distributions to our shareholders.***

We have incurred indebtedness and expect that we will incur additional indebtedness in the future. Interest we pay reduces our cash available for distributions. Additionally, since we have incurred and may continue to incur variable rate debt, increases in interest rates would increase our interest costs, which reduces our cash flows and our ability to make distributions to our shareholders. In addition, if we need to repay existing debt during periods of rising interest rates, we could be required to liquidate one or more of our investments in properties at times which may not permit realization of the maximum return on such investments.

### ***Our hedging strategies may not be successful in mitigating our risks associated with interest rates.***

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. We cannot assure our shareholders that our use of derivatives will offset the risks related to changes in interest rates. In addition, the nature and timing of hedging transactions may influence the effectiveness of our hedging strategies. Poorly designed strategies or improperly executed transactions could actually increase our risk and losses. In addition, hedging strategies involve transaction and other costs. We cannot assure our shareholders that our hedging strategy and the derivatives that we use will adequately offset the risk of interest rate volatility or that our hedging transactions will not result in losses.

### ***Our derivative financial instruments used to hedge against interest rate fluctuations could reduce investors' overall returns.***

We have and may continue to use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our properties. These instruments involve risk, such as the risk that counterparties may fail to perform under the terms of the derivative contract or that such arrangements may not be effective in reducing our exposure to interest rate changes. In addition, the possible use of such instruments may reduce the overall return on our investments. These instruments may also generate income that may not be treated as qualifying REIT income for purposes of the 75% or 95% REIT income tests.

### ***An investment in us may be subject to additional risks if we make international investments.***

We may purchase properties located in Mexico and Canada. Any such investment could be affected by factors peculiar to the laws and business practices of the jurisdictions in which the properties are located. These laws may expose us to risks that are different from and in addition to those commonly found in the United States. Foreign investments could be subject to the following risks:

changing governmental rules and policies, including changes in land use and zoning laws;

enactment of laws relating to the foreign ownership of real property or mortgages and laws restricting the ability of foreign persons or companies to remove profits earned from activities within the country to the person's or company's country of origin;

variations in currency exchange rates;

adverse market conditions caused by terrorism, civil unrest and changes in national or local governmental or economic conditions;

Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

the willingness of domestic or foreign lenders to make mortgage loans in certain countries and changes in the availability, cost and terms of mortgage funds resulting from varying national economic policies;

**Table of Contents**

the imposition of unique tax structures and changes in real estate and other tax rates and other operating expenses in particular countries;

general political and economic instability;

our limited experience and expertise in foreign countries relative to our experience and expertise in the United States; and

more stringent environmental laws or changes in such laws.

***Adverse economic and geopolitical conditions could negatively affect our returns and profitability.***

Among others, the following market and economic challenges may adversely affect our operating results:

poor economic times may result in customer defaults under our leases and reduced demand for industrial space;

overbuilding industrial space may increase vacancies;

maintaining occupancy levels may require increased concessions, tenant improvement expenditures or reduced rental rates; and Our operations could be negatively affected to the extent that an economic downturn is prolonged or becomes more severe.

***Our UPREIT structure may result in potential conflicts of interest.***

Persons holding units in our partnership have the right to vote on certain amendments to our partnership's Limited Partnership Agreement, as well as on certain other matters. Persons holding such voting rights may exercise them in a manner that conflicts with the interests of our shareholders. As general partner of our partnership, we will be obligated to act in a manner that is in the best interest of all partners of our partnership. Circumstances may arise in the future when the interest of limited partners in our partnership may conflict with the interests of our shareholders. For example, the timing and terms of dispositions of properties held by our partnership may result in tax consequences to certain limited partners and not to our shareholders.

***Our shareholders' returns on investment may be reduced if we are required to register as an investment company under the Investment Company Act.***

We are not registered as an investment company under the Investment Company Act of 1940. If we were obligated to register as an investment company, we would have to comply with a variety of substantive requirements under the Investment Company Act. These requirements include:

limitations on capital structure;

restrictions on specified investments;

prohibitions on transactions with affiliates; and

## Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

compliance with reporting, recordkeeping, voting, proxy disclosure and other rules and regulations that would significantly change our operations.

In order to maintain our exemption from regulation under the Investment Company Act of 1940, we must engage primarily in the business of buying real estate. If we are unable to invest a significant portion of the proceeds of the offering in properties within one year of the termination of the offering such that more than 40% of our assets consist of investment securities, as defined under the Investment Company Act of 1940, we may avoid being required to register as an investment company by temporarily investing any unused proceeds in government securities with low returns. This would reduce the cash available for distribution to shareholders and possibly lower shareholder returns.

## **Table of Contents**

To maintain compliance with the Investment Company Act exemption, we may be unable to sell assets we would otherwise want to sell and may need to sell assets we would otherwise wish to retain. In addition, we may have to acquire additional income or loss generating assets that we might not otherwise have acquired or may have to forgo opportunities to acquire interests in companies that we would otherwise want to acquire and would be important to our strategy.

If we were required to register as an investment company but failed to do so, we would be prohibited from engaging in our business, and criminal and civil actions could be brought against us. In addition, our contracts would be unenforceable unless a court were to require enforcement, and a court could appoint a receiver to take control of us and liquidate our business.

## **REAL ESTATE RISKS**

### ***General Real Estate Risks***

We will be subject to risks generally incident to the ownership of real estate, including:

Changes in general or local economic conditions;

Changes in supply of or demand for similar or competing properties in an area;

Bankruptcies, financial difficulties or lease defaults by our customers;

Changes in interest rates and availability of permanent mortgage funds that may render the sale of a property difficult or unattractive or otherwise reduce the returns to shareholders;

Changes in operating expenses;

Changes in governmental rules, regulations and fiscal policies, including changes in tax, real estate, environmental and zoning laws;

Changes in the cost or availability of insurance, including coverage for terrorism, mold or asbestos;

Periods of high interest rates and tight money supply;

Customer turnover; and

General overbuilding or excess supply in the market area.

For these and other reasons, we cannot assure you that we will be profitable or that we will realize growth in the value of our real estate properties.

*Competition for investments may increase costs and reduce returns.*



## Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

We will compete for real property investments with pension funds and their advisors, bank and insurance company investment accounts, other real estate investment trusts, real estate limited partnerships, individuals and other entities engaged in real estate investment activities. Many other competitors have greater financial resources than us and a greater ability to borrow funds to acquire properties. Competition for investments may reduce the number of suitable investment opportunities available to us and may have the effect of increasing acquisition costs reducing the rents we can charge and, as a result, reducing our shareholders' returns. We believe the current market for acquisitions to be extremely competitive.

*A property that incurs a vacancy could be difficult to sell or re-lease.*

A property may incur a vacancy either by the continued default of a customer under its lease or the expiration of one of our leases. In addition, certain of the properties we acquire may have some level of vacancy at the time of closing. Certain of our properties may be specifically suited to the particular needs of a customer. We may have difficulty obtaining a new customer for any vacant space we have in our properties. If the vacancy

## **Table of Contents**

continues for a long period of time, we may suffer reduced revenues resulting in less cash available to be distributed to shareholders. In addition, the resale value of a property could be diminished because the market value of a particular property will depend principally upon the value of the leases of such property.

### ***We are dependent on customers for our revenue.***

Certain of our properties are occupied by a single customer. As a result, the success of those properties will depend on the financial stability of a single customer. Lease payment defaults by customers could cause us to reduce the amount of distributions to shareholders. A default by a customer on its lease payments could force us to find an alternative source of revenue to pay any mortgage loan on the property. In the event of a customer default, we may experience delays in enforcing our rights as landlord and may incur substantial costs, including litigation and related expenses, in protecting our investment and re-leasing our property. If a lease is terminated, we may be unable to lease the property for the rent previously received or sell the property without incurring a loss.

### ***We may not have funding for future tenant improvements.***

When a customer at one of our properties does not renew its lease or otherwise vacates its space in one of our buildings, it is likely that, in order to attract one or more new customers, we will be required to expend funds to construct new tenant improvements in the vacated space. Substantially all of our net offering proceeds will be invested in real estate properties and therefore, while we intend to manage our cash position or financing availability to pay for any improvements required for re-leasing, we cannot assure our shareholders that we will have adequate sources of funding available to us for such purposes in the future.

### ***Uninsured losses relating to real property may adversely affect shareholder returns.***

Our advisor will attempt to ensure that all of our properties are adequately insured to cover casualty losses. However, changes in the cost or availability of insurance could expose us to uninsured casualty losses. In the event that any of our properties incurs a casualty loss that is not fully covered by insurance, the value of our assets will be reduced by any such uninsured loss. In addition, we may have no source of funding to repair or reconstruct the damaged property, and we cannot assure our shareholders that any such sources of funding will be available to us for such purposes in the future.

### ***Development and construction of properties may result in delays and increased costs and risks.***

We may invest in the acquisition of raw land upon which we will develop and construct improvements at a fixed contract price. In any such projects we will be subject to risks relating to the builder's ability to control construction costs or to build in conformity with plans, specifications and timetables. The builder's failure to perform may result in legal action by us to rescind the purchase or construction contract or to enforce the builder's obligations. Performance may also be affected or delayed by conditions beyond the builder's control. Delays in completion of construction could also give customers the right to terminate preconstruction leases for space at a newly developed project. We may incur additional risks when we make periodic progress payments or other advances to such builders prior to completion of construction. Each of these factors could result in increased costs of a project or loss of our investment. In addition, we will be subject to normal lease-up risks relating to newly constructed projects if they are not fully leased prior to the commencement of construction. Furthermore, the price we agree to for the land will be based on projections of rental income and expenses and estimates of construction costs as well as the fair market value of the property upon completion of construction. If our projections are inaccurate, we may pay too much for the land and fail to achieve our forecast of returns due to the factors discussed above.

### ***Delays in acquisitions of properties may have adverse effects on our shareholders' investments.***

Delays we encounter in the selection, acquisition and development of properties could adversely affect our shareholders' returns. Where properties are acquired prior to the start of construction, it will typically take 8 to

## **Table of Contents**

18 months to complete construction and lease available space. Therefore, our shareholders could suffer delays in the payment of cash distributions attributable to those particular properties. Our articles of incorporation limit the amount we can invest in unimproved land to 10% of our total assets.

***Uncertain market conditions and the broad discretion of our advisor relating to the future disposition of properties could adversely affect the return on our shareholders' investments.***

We expect to hold the various real properties in which we invest until such time as our advisor decides that a sale or other disposition is appropriate given our investment objectives. Our advisor, subject to approval of our board of directors, may exercise its discretion as to whether and when to sell a property, and we will have no obligation to sell properties at any particular time, except in the event of a liquidation of our properties in accordance with our articles of incorporation if we do not list our common stock, complete a sale or merger of Dividend Capital Trust in a transaction which provides our shareholders with a combination of cash and/or securities of a publicly traded company or sell substantially all of our properties for cash or other consideration by February 2013. We cannot predict the various market conditions affecting real estate investments which will exist at any particular time in the future. Due to the uncertainty of market conditions which may affect the future disposition of our properties, we cannot assure our shareholders that we will be able to sell our properties at a profit in the future. Accordingly, the extent to which our shareholders will receive cash distributions and realize potential appreciation on our real estate investments will be dependent upon fluctuating market conditions.

***Discovery of previously undetected environmentally hazardous conditions may adversely affect our operating results.***

Under various federal, state and local environmental laws, a current or previous owner or operator of real property may be liable for the cost of removing or remediating hazardous or toxic substances on such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. Environmental laws also may impose restrictions on the manner in which property may be used or businesses may be operated. A property owner who violates environmental laws may be subject to sanctions which may be enforced by governmental agencies or, in certain circumstances, by private parties. In connection with the acquisition and ownership of our properties, we may be exposed to such costs. The cost of defending against environmental claims, of compliance with environmental regulatory requirements or of remediating any contaminated property could materially, adversely affect our business, assets or results of operations and, consequently, amounts available for distribution to our shareholders.

***If we fail to make our debt payments, we could lose our investment in a property.***

Loans obtained to fund property acquisitions will generally be secured by first mortgages on such properties. If we are unable to make our debt service payments as required, a lender could foreclose on the property or properties securing its debt. This could cause us to lose part or all of our investment which in turn could cause the value of the common stock and the distributions payable to shareholders to be reduced. Certain of our existing and future indebtedness is and may be cross-collateralized and, consequently, a default on this indebtedness could cause us to lose part or all of our investment in multiple properties.

***Lenders may require us to enter into restrictive covenants relating to our operations.***

In connection with obtaining certain financing, a lender may impose certain restrictions on us which affect our ability to incur additional debt and our ability to make distributions to our shareholders. Loan documents we enter into may contain negative covenants which limit our ability to further mortgage the property, replace our advisor or impose other limitations.

***If we enter into financing arrangements involving balloon payment obligations, it may adversely affect our ability to make distributions.***

Some of our financing arrangements require us to make a lump-sum or balloon payment at maturity. Our ability to make a balloon payment at maturity is uncertain and may depend upon our ability to obtain additional

## **Table of Contents**

financing or our ability to sell the property. At the time the balloon payment is due, we may or may not be able to refinance the existing financing on terms as favorable as the original loan or sell the property at a price sufficient to make the balloon payment. The effect of a refinancing or sale could affect the rate of return to shareholders and the projected time of disposition of our assets. In addition, payments of principal and interest made to service our debts may leave us with insufficient cash to pay the distributions that we are required to pay to maintain our qualification as a REIT.

### ***Costs of complying with governmental laws and regulations may adversely affect our income and the cash available for any distributions.***

All real property and the operations conducted on real property are subject to federal, state and local laws and regulations relating to environmental protection and human health and safety. Some of these laws and regulations may impose joint and several liability on customers, owners or operators for the costs to investigate or remediate contaminated properties, regardless of fault or whether the acts causing the contamination were legal. In addition, the presence of hazardous substances, or the failure to properly remediate these substances, may adversely affect our ability to sell, rent or pledge such property as collateral for future borrowings.

Some of these laws and regulations have been amended so as to require compliance with new or more stringent standards as of future dates. Compliance with new or more stringent laws or regulations or stricter interpretation of existing laws may require us to incur material expenditures. Future laws, ordinances or regulations may impose material environmental liability. Additionally, our customers' operations, the existing condition of land upon acquisition, operations in the vicinity of our properties, such as the presence of underground storage tanks, or activities of unrelated third parties may affect our properties. In addition, there are various local, state and federal fire, health, life-safety and similar regulations with which we may be required to comply, and which may subject us to liability in the form of fines or damages for noncompliance. Any material expenditures, fines, or damages we must pay will reduce our ability to make distributions and may reduce the value of our shareholders' investments.

### ***If we sell properties and provide financing to purchasers, defaults by the purchasers would adversely affect our cash flows.***

If we decide to sell any of our properties, we presently intend to use our best efforts to sell them for cash. However, in some instances we may sell our properties by providing financing to purchasers. If we provide financing to purchasers, we will bear the risk that the purchaser may default, which could negatively impact our cash distributions to shareholders and result in litigation and related expenses. Even in the absence of a purchaser default, the distribution of the proceeds of sales to our shareholders, or their reinvestment in other assets, will be delayed until the promissory notes or other property we may accept upon a sale are actually paid, sold, refinanced or otherwise disposed of.

### ***High mortgage rates may make it difficult for us to finance or refinance properties, which could reduce the number of properties we can acquire and the amount of cash distributions we can make.***

If mortgage debt is unavailable at reasonable rates, we may not be able to finance the purchase of properties. If we place mortgage debt on properties, we run the risk of being unable to refinance such debt when the loans come due, or of being unable to refinance such debt on favorable terms. If interest rates are higher when we refinance such debt, our income could be reduced. We may be unable to refinance such debt at appropriate times, which may require us to sell properties on terms that are not advantageous to us, or could result in the foreclosure of such properties. If any of these events occur, our cash flow would be reduced. This, in turn, would reduce cash available for distribution to our shareholders and may hinder our ability to raise more capital by issuing more stock or by borrowing more money.

## **Table of Contents**

### ***We may be unable to sell a property if or when we decide to do so.***

The real estate market is affected by many factors, such as general economic conditions, availability of financing, interest rates and other factors, including supply and demand, that are beyond our control. We cannot predict whether we will be able to sell any property for the price or on the terms set by us, or whether any price or other terms offered by a prospective purchaser would be acceptable to us. We cannot predict the length of time needed to find a willing purchaser and to close the sale of a property.

We may be required to expend funds to correct defects or to make improvements before a property can be sold. We cannot assure our shareholders that we will have funds available to correct such defects or to make such improvements.

In acquiring a property, we may agree to restrictions that prohibit the sale of that property for a period of time or impose other restrictions, such as a limitation on the amount of debt that can be placed or repaid on that property. These provisions would restrict our ability to sell a property.

### ***If a sale and leaseback transaction is recharacterized, our financial condition could be adversely affected.***

We may enter into sale and leaseback transactions, where we would purchase a property and then lease the same property back to the person from whom we purchased it. In the event of the bankruptcy of a customer, a transaction structured as a sale and leaseback may be recharacterized as either a financing or a joint venture, either of which outcomes could adversely affect our business.

If the sale and leaseback was recharacterized as a financing, we might not be considered the owner of the property, and as a result we would have the status of a creditor in relation to the customer. In that event, we would no longer have the right to sell or encumber our ownership interest in the property. Instead, we would have a claim against the customer for the amounts owed under the lease, with the claim arguably secured by the property. The customer/debtor might have the ability to propose a plan restructuring the term, interest rate and amortization schedule of its outstanding balance. If confirmed by the bankruptcy court, we could be bound by the new terms, and prevented from foreclosing our lien on the property. These outcomes could adversely affect our cash flow and the amount available for distributions to our shareholders.

If the sale and leaseback were recharacterized as a joint venture, we and our customer could be treated as co-venturers with regard to the property. As a result, we could be held liable, under some circumstances, for debts incurred by the customer relating to the property. The imposition of liability on us could adversely affect our cash flow and the amount available for distributions to our shareholders.

### ***If our customers are highly leveraged, they may have a higher possibility of filing for bankruptcy or insolvency.***

Of our customers that experience downturns in their operating results due to adverse changes to their business or economic conditions, those that are highly leveraged may have a higher possibility of filing for bankruptcy or insolvency. In bankruptcy or insolvency, a customer may have the option of vacating a property instead of paying rent. Until such a property is released from bankruptcy, our revenues would be reduced and could cause us to reduce distributions to shareholders. We may have highly leveraged customers in the future.

### ***We may acquire properties with lock-out provisions which may affect our ability to dispose of the properties.***

We may acquire properties through contracts that could restrict our ability to dispose of the property for a period of time. These lock-out provisions could affect our ability to turn our investments into cash and could affect cash available for distributions to our shareholders. Lock-out provisions could also impair our ability to take actions during the lock-out period that would otherwise be in the best interest of our shareholders and, therefore, may have an adverse impact on the value of our shares, relative to the value that would result if the lock-out provisions did not exist.

---

**Table of Contents**

**RISKS ASSOCIATED WITH OUR PARTNERSHIP'S PRIVATE PLACEMENT**

*Our partnership's private placement subjects us to liabilities.*

Affiliates of our advisor have developed certain transaction structures that are designed to provide investors that own real property, either directly or indirectly through a limited liability company or a limited partnership, with the opportunity to receive limited partnership units in our partnership in exchange for their direct or indirect interests in such real property on a tax-deferred basis. These transactions depend on the interpretation of, and compliance with, extremely technical tax laws and regulations. As the general partner of our partnership, we may be subject to liability, from litigation or otherwise, as a result of these transactions, including in the event an investor in these transactions fails to qualify for the desired tax advantage.

*We have and may continue to acquire co-ownership interests in real property that are subject to certain co-ownership agreements which may affect our ability to operate or dispose of the property or our co-ownership interest.*

We have and may continue to acquire co-ownership interests, especially in connection with our partnership's private placement, such as tenancy-in-common interests in real property, that are subject to certain co-ownership agreements. The co-ownership agreements may limit our ability to encumber, lease, or dispose of our co-ownership interest. Such agreements could affect our ability to turn our investments into cash and could affect cash available for distributions to our shareholders. The co-ownership agreements could also impair our ability to take actions that would otherwise be in the best interest of our shareholders and, therefore, may have an adverse impact on the value of our shares, relative to the value that would result if the co-ownership agreements did not exist.

**FEDERAL INCOME TAX RISKS**

*Failure to qualify as a REIT could adversely affect our operations and our ability to make distributions.*

We operate in a manner so as to qualify as a REIT for federal income tax purposes commencing with our taxable year ending December 31, 2003. Although we do not intend to request a ruling from the Internal Revenue Service as to our REIT status, we have received the opinion of our special tax counsel, Skadden, Arps, Slate, Meagher & Flom LLP, with respect to our qualification as a REIT. This opinion was issued in connection with our fourth public offering. Investors should be aware, however, that opinions of counsel are not binding on the Internal Revenue Service or on any court. The opinion of Skadden, Arps, Slate, Meagher & Flom LLP represents only the view of our counsel based on our counsel's review and analysis of existing law and on certain representations as to factual matters and covenants made by us, including representations relating to the values of our assets and the sources of our income. Skadden, Arps, Slate, Meagher & Flom LLP has no obligation to advise us or the holders of our common stock of any subsequent change in the matters stated, represented or assumed in its opinion or of any subsequent change in applicable law. Furthermore, both the validity of the opinion of Skadden, Arps, Slate, Meagher & Flom LLP and our qualification as a REIT will depend on our satisfaction of numerous requirements (some on an annual and quarterly basis) established under highly technical and complex provisions of the Internal Revenue Code for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. The fact that we hold substantially all of our assets through our partnership and its subsidiaries further complicates the application of the REIT requirements for us. No assurance can be given that we will qualify as a REIT for any particular year.

If we fail to qualify as a REIT in any taxable year for which a REIT election has been made, we would not be allowed a deduction for distributions paid to our shareholders in computing our taxable income and would be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at corporate rates. Moreover, unless entitled to relief under certain statutory provisions, we would also be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would reduce our net earnings available for investment or distribution to our shareholders because of the additional tax liability to us for the years involved. As a result of the additional tax liability, we

---

**Table of Contents**

might need to borrow funds or liquidate certain investments on terms that may be disadvantageous to us in order to pay the applicable tax, and therefore we would not be compelled to make distributions under the Internal Revenue Code.

***To qualify as a REIT, we must meet annual distribution requirements.***

To obtain the favorable tax treatment accorded to REITs, among other requirements, we normally will be required each year to distribute to our shareholders at least 90% of our REIT taxable income, determined without regard to the deduction for distributions paid and by excluding net capital gains. We will be subject to federal income tax on our undistributed taxable income and net capital gain. In addition, if we fail to distribute during each calendar year at least the sum of (a) 85% of our ordinary income for such year, (b) 95% of our capital gain net income for such year, and (c) any undistributed taxable income from prior periods, we would be subject to a 4% excise tax on the excess of the required distribution over the sum of (i) the amounts actually distributed by us, plus (ii) retained amounts on which we pay income tax at the corporate level. These requirements could cause us to distribute amounts that otherwise would be spent on acquisitions or development of properties and it is possible that we might be required to borrow funds or sell assets to fund these distributions. Although we intend to make distributions sufficient to meet the annual distribution requirements and to avoid corporate income taxation on the earnings that we distribute, it is possible that we might not always be able to do so.

***Legislative or regulatory action could adversely affect our shareholders.***

In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and we cannot assure our shareholders that any such changes will not adversely affect the taxation of a shareholder. Any such changes could have an adverse effect on an investment in our common stock. Our shareholders are urged to consult with their tax advisor with respect to the status of legislative, regulatory or administrative developments and proposals and their potential effect on an investment in common stock.

***Recharacterization of transactions under our partnership's private placement may result in a 100% tax on income from prohibited transactions, which would diminish our cash distributions to our shareholders.***

The Internal Revenue Service could recharacterize transactions under our partnership's private placement such that our partnership is treated as the bona fide owner, for tax purposes, of properties acquired and resold by the entity established to facilitate the transaction. Such recharacterization could result in the income realized on these transactions by our partnership being treated as gain on the sale of property that is held as inventory or otherwise held primarily for the sale to customers in the ordinary course of business. In such event, such gain would constitute income from a prohibited transaction and would be subject to a 100% tax. If this occurs, our ability to pay cash distributions to our shareholders will be adversely affected.

***Our shareholders may have current tax liability on distributions they elect to reinvest in our common stock.***

If our shareholders participate in our distribution reinvestment plan, they will be deemed to have received, and for income tax purposes will be taxed on, the amount reinvested in common stock to the extent the amount reinvested was not a tax-free return of capital. As a result, our shareholders may have to use funds from other sources to pay their tax liability on the value of the common stock received.

***In certain circumstances, we may be subject to federal and state income taxes as a REIT, which would reduce our cash available for distribution to our shareholders.***

Even if we qualify and maintain our status as a REIT, we may be subject to federal income taxes or state taxes. For example, net income from a prohibited transaction will be subject to a 100% tax. In addition, we may not be able to make sufficient distributions to avoid excise taxes. We may also decide to retain certain gains from the sale or other disposition of our property and pay income tax directly on such gains. In that event, our shareholders would be required to include such gains in income and would receive a corresponding credit for

## **Table of Contents**

their share of taxes paid by us. We may also be subject to state and local taxes on our income or property, either directly or at the level of our partnership or at the level of the other companies through which we indirectly own our assets. In addition, any net taxable income earned directly by the taxable REIT subsidiary we utilize to hold fractional tenancy-in-common interests in certain of our properties will be subject to federal and state corporate income tax. Any federal or state taxes we pay will reduce our cash available for distribution to our shareholders.

***The opinion of Skadden, Arps, Slate, Meagher & Flom LLP regarding our status as a REIT does not guarantee our ability to remain a REIT.***

Our special tax counsel, Skadden, Arps, Slate, Meagher & Flom LLP, rendered its opinion upon commencement of our fourth public offering that, commencing with our taxable year ending December 31, 2003, we were organized in conformity with the requirements for qualification as a REIT and our actual and proposed method of operation has enabled and will enable us to meet the requirements for qualification and taxation as a REIT. This opinion is based upon our representations as to the manner in which we will be owned, invest in assets, and operate, among other things. The validity of the opinion of Skadden, Arps, Slate, Meagher & Flom LLP and our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis, the results of which will not be monitored by Skadden, Arps, Slate, Meagher & Flom LLP. Accordingly, no assurances can be given that we will satisfy the REIT requirements in any one taxable year. Also, the opinion of Skadden, Arps, Slate, Meagher & Flom LLP represents counsel's legal judgment based on the law in effect as of the date of the commencement of our fourth public offering, is not binding on the Internal Revenue Service, and could be subject to modification or withdrawal based on future legislative, judicial or administrative changes to the federal income tax laws, any of which could be applied retroactively.

***If our partnership was classified as a publicly traded partnership under the Internal Revenue Code, our status as a REIT and our ability to pay distributions to our shareholders could be adversely affected.***

Our partnership is organized as a partnership for federal income tax purposes. Even though our partnership will not elect to be treated as an association taxable as a corporation, it may be taxed as a corporation if it is deemed to be a publicly traded partnership. A publicly traded partnership is a partnership whose interests are traded on an established securities market or are considered readily tradable on a secondary market or the substantial equivalent thereof. We believe and currently intend to take the position that our partnership should not be classified as a publicly traded partnership because interests in our partnership are not traded on an established securities market, and our partnership should satisfy certain safe harbors which prevent a partnership's interests from being treated as readily tradable on an established securities market or substantial equivalent thereof. No assurance can be given, however, that the Internal Revenue Service would not assert that our partnership constitutes a publicly traded partnership, or that facts and circumstances will not develop which could result in our partnership being treated as a publicly traded partnership. If the Internal Revenue Service were to assert successfully that our partnership is a publicly traded partnership, and substantially all of our partnership's gross income did not consist of the specified types of passive income, our partnership would be treated as an association taxable as a corporation and would be subject to corporate tax at the entity level. In such event, the character of our assets and items of gross income would change and would result in a termination of our status as a REIT. In addition, the imposition of a corporate tax on our partnership would reduce the amount of cash available for distribution to our shareholders.

***Foreign investors may be subject to Foreign Investment Real Property Tax Act ( FIRPTA ) tax on sale of common shares if we are unable to qualify as a domestically controlled REIT.***

A foreign person disposing of a U.S. real property interest, including shares of a U.S. corporation whose assets consist principally of U.S. real property interests, is generally subject to a tax, known as FIRPTA tax, on the gain recognized on the disposition. Such FIRPTA tax does not apply, however, to the disposition of stock in a REIT if the REIT is a domestically controlled REIT. A domestically controlled REIT is a REIT in which, at all times during a specified testing period, less than 50% in value of its shares is held directly or indirectly by



**Table of Contents**

non-U.S. holders. We cannot assure our shareholders that we will qualify as a domestically controlled REIT. If we were to fail to so qualify, gain realized by a foreign investor on a sale of our common stock would be subject to FIRPTA tax unless our common stock was traded on an established securities market and the foreign investor did not at any time during a specified testing period directly or indirectly own more than 5% of the value of our outstanding common stock.

**RETIREMENT PLAN RISKS**

*There are special considerations that apply to pension or profit sharing trusts or IRAs investing in common stock.*

If shareholders are investing the assets of an IRA, pension, profit sharing, 401(k), Keogh or other qualified retirement plan, they should satisfy themselves that:

They have analyzed to their satisfaction the question of whether their investment will not produce unrelated business taxable income for the plan or IRA;

Their investment is consistent with their fiduciary obligations under ERISA and the Internal Revenue Code;

Their investment is made in accordance with the documents and instruments governing your plan or IRA, including their plan's investment policy;

Their investment satisfies the prudence and diversification requirements of Sections 404(a)(1)(B) and 404(a)(1)(C) of ERISA;

Their investment will not impair the liquidity of the plan or IRA;

Their investment will not constitute a prohibited transaction under Section 406 of ERISA or Section 4975 of the Internal Revenue Code; and

They will be able to value the assets of the plan annually in accordance with ERISA requirements.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**Table of Contents****ITEM 2. PROPERTIES**

Consistent with our investment strategy previously outlined (See Item 1. Business ), as of December 31, 2005, we have assembled a portfolio of industrial real estate consisting of 264 operating properties and we have entered into joint ventures to develop an additional three properties. Our operating properties are located in 23 distribution markets throughout the United States and have a combined total gross leasable space of 40.3 million square feet. As of December 31, 2005, our properties were subject to mortgage debt which has an aggregate carrying value of approximately \$642.2 million (see Note 5 Debt to the consolidated financial statements). The following series of tables illustrates the makeup of our properties in terms of: 1) target market presence and geographic diversification; 2) property types; 3) lease expirations; and 4) customer diversification.

**Target Market Presence and Geographic Diversification**

The following table describes the geographic diversity of the operating properties that we majority owned and/or controlled (i.e. our consolidated properties) as of December 31, 2005 and 2004, respectively, by market (dollar amounts are in thousands).

	As of December 31,				As of December 31,			
	2005	2005		2004	2004		2004	
	Number	Historical	Gross	Occupancy (2)	Number	Historical	Gross	Occupancy (2)
	of	Cost (1)	Leasable		of	Cost (1)	Leasable	
	Buildings		Area		Buildings		Area	
			(Sq. Ft.)				(Sq. Ft.)	
<b>Target Markets:</b>								
Atlanta	48	\$ 263,604	5,981,602	88.5%	18	\$ 147,660	3,946,931	82.8%
Baltimore	10	97,422	1,306,568	91.2%				
Charlotte	4	22,290	426,404	96.4%				
Chicago	14	169,839	3,117,467	94.5%	1	11,370	222,122	100.0%
Cincinnati	18	132,591	3,294,142	83.3%	7	78,925	1,797,369	97.6%
Columbus	3	49,246	1,213,486	100.0%				
Dallas	49	250,564	5,241,264	96.1%	18	93,033	2,330,906	91.1%
Denver	1	9,027	160,232	100.0%	1	8,949	160,232	82.8%
Harrisburg/Lehigh Valley	5	45,852	895,157	100.0%				
Houston	33	129,280	2,349,671	91.3%	21	83,957	1,622,270	90.5%
Indianapolis	3	57,239	1,626,873	100.0%	1	15,139	442,127	100.0%
Los Angeles Basin	11	85,602	1,169,498	76.5%	4	32,744	444,066	100.0%
Louisville	2	18,350	521,000	100.0%	2	18,351	521,000	100.0%
Memphis	11	184,259	5,042,018	95.4%	3	39,559	1,101,006	97.9%
Miami	3	26,025	316,452	96.3%				
Nashville	4	80,048	2,256,373	100.0%	3	59,340	1,699,530	100.0%
New Jersey	8	77,871	970,946	100.0%				
Orlando	2	15,718	367,137	100.0%	2	15,687	367,137	100.0%
Phoenix	14	89,226	1,635,109	97.9%	13	79,195	1,474,963	85.7%
San Antonio	2	7,699	172,050	65.4%	2	7,725	172,050	100.0%
San Francisco Bay Area	5	36,337	474,636	92.4%	5	35,371	474,636	100.0%
Seattle	8	88,214	1,198,617	100.0%				
<b>Non-Target Market:</b>								
Boston	6	42,172	570,641	67.4%	5	27,059	405,741	78.2%
Total operating properties	264	1,978,475	40,307,343	93.1%	106	754,064	17,182,086	91.6%
Properties under development	1	8,401	519,391	n/a				n/a
Land held for development	n/a	8,049	n/a	n/a	n/a		n/a	n/a
<b>Grand Total</b>	<b>265</b>	<b>\$ 1,994,925</b>	<b>40,826,734</b>	<b>93.1%</b>	<b>106</b>	<b>\$ 754,064</b>	<b>17,182,086</b>	<b>91.6%</b>

(1) Represents historical undepreciated costs pursuant to U.S. generally accepted accounting principles ( GAAP ) as of the period indicated including acquisition fees paid to our advisor. Acquisition fees paid to our advisor totaled \$11.1 million and \$6.4 million in 2005 and 2004, respectively.

## Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

- (2) The total vacant square footage as of December 31, 2005 and 2004 was 2,783,475 and 1,435,041, respectively. Of the vacant space, we had 69,061 and 947,356 square feet, respectively, under master lease agreements with various sellers whereby the sellers are obligated to pay monthly rent until the earlier of the expiration of the master lease agreement or commencement of rent from a new customer. The total percentage of square feet leased, including space covered by master leases was 93% and 97% as of December 31, 2005 and 2004, respectively. For financial reporting purposes under GAAP, rental and expense recovery payments under master lease agreements are reflected as a reduction of the basis of the underlying property rather than revenues.

**Table of Contents**

See Note 18 Segment Information to the consolidated financial statements for detailed market segment information including rental revenues, property net operating income and total assets by market segment.

**Property Types**

The following table reflects our portfolio by property type, in terms of cost and square footage, as of December 31, 2005 and 2004, respectively (dollar amounts are in thousands).

	As of December 31,							
	2005				2004			
	Historical Cost (1)		Gross Leasable Area (Sq. Ft.)		Historical Cost (1)		Gross Leasable Area (Sq. Ft.)	
Bulk Distribution	\$ 1,522,694	77.0%	34,389,095	85.3%	\$ 600,166	79.6%	15,094,935	87.8%
Light Industrial	296,843	15.0%	4,285,699	10.6%	132,241	17.5%	1,768,507	10.3%
Service Center	158,938	8.0%	1,632,549	4.1%	21,657	2.9%	318,644	1.9%
Total	\$ 1,978,475	100.0%	40,307,343	100.0%	\$ 754,064	100.0%	17,182,086	100.0%

- (1) Represents historical undepreciated costs pursuant to U.S. GAAP as of the period indicated including acquisition fees paid to our advisor. Acquisition fees paid to our advisor totaled \$11.1 million and \$6.4 million in 2005 and 2004, respectively.

**Lease Expirations**

Our industrial properties are typically net leased to corporate customers for terms typically ranging from three to ten years with a weighted average remaining term of 4.3 years as of December 31, 2005. A net lease is a lease whereby the customer is responsible for all operating expenses of, and to a limited extent certain capital expenditures for, the leased property. However, we do have certain leases that have specified limitations on the amount of such reimbursements. The following table sets forth a schedule of expiring leases by square feet and by annual minimum rents (dollar amounts are in thousands):

Year	Square Feet	Percent of Portfolio	Annual Minimum Rents of	
			Expiring	Percent of Portfolio
			Leases(2)	Portfolio
2006(1)	5,446,726	13.5%	\$ 21,435	13.8%
2007	4,322,013	10.7%	19,002	12.2%
2008	6,898,922	17.1%	26,550	17.1%
2009	3,716,845	9.2%	16,302	10.5%
2010	5,555,061	13.8%	20,883	13.4%
Thereafter	11,584,301	28.8%	51,285	33.0%
Total	37,523,868	93.1%	\$ 155,457	100.0%

- (1) Excludes 69,061 square feet and \$120,228 of rental payments associated with a master lease with a seller whereby the seller is obligated to pay monthly rent until the earlier of the expiration of the master lease agreement or commencement of rent from a new customer. Under GAAP, rental payments under a master lease agreement are reflected as a reduction of the basis of the underlying

## Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

property rather than revenues.

- (2) These amounts represent the minimum rents due under non-cancelable leases for the last month of the lease multiplied by 12 months but excluding amounts paid by customers for the reimbursement of operating expenses.

**Table of Contents****Customer Diversification**

As of December 31, 2005, there were no customers that occupied more than five percent of our total portfolio based on gross leasable square feet. The following table describes our ten largest customers based on square footage occupied (dollars are in thousands).

Customer	No. Leases	Market	2006 Scheduled Rents	Square Feet Occupied	% of Portfolio	Lease Expiration
Technicolor Videocassette, Inc.	2	Memphis	\$ 2,345 770	806,000 648,750	2.15% 1.73%	09/30/2014 05/31/2006
Bridgestone/Firestone	1	Nashville	2,425	987,873	2.63%	05/31/2013
Whirlpool Corporation	1	Indianapolis	2,253	804,586	2.14%	12/31/2008
Exel, Inc.	5	Cincinnati, Columbus, Orlando, Atlanta	83 451 13 1,425 389	26,250 200,352 33,600 500,000 108,394	0.07% 0.53% 0.09% 1.33% 0.29%	03/31/2007 09/20/2008 02/28/2006 12/31/2008 01/31/2008
International Truck and Engine	2	Dallas, Atlanta	996 1,112	352,170 360,000	0.94% 0.96%	02/28/2013 12/31/2015
United Parcel Service (UPS)	2	Cincinnati, Memphis	2,138 74	710,400 52,500	1.89% 0.14%	12/01/2013 04/30/2006
United Stationers Supply Co.	1	Memphis	2,077	654,080	1.74%	06/30/2010
APL Logistics	2	Nashville	1,294 63	325,000 225,500	0.87% 0.60%	12/31/2008 01/14/2006
Binney & Smith, Inc.	1	Harrisburg	1,934	550,000	1.47%	04/20/2013
The Clorox Sales Company	1	Dallas	1,639	540,000	1.44%	02/28/2015
Total ten largest customers leases	18		\$ 21,481	7,885,455	21.01%	
All other customers leases	614		\$ 122,279	29,638,413	78.99%	
Total portfolio	632		\$ 143,760	37,523,868	100.0%	

**ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may be party to a variety of legal proceedings arising in the ordinary course of our business. We are not a party to any material litigation or legal proceedings, or to the best of our knowledge, any threatened litigation or legal proceedings which, in the opinion of management, individually or in the aggregate, would have a material adverse effect on our results of operations or financial condition.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SHAREHOLDERS**

None.

---

**Table of Contents**

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

There is no established public trading market for our common stock. Our fourth and most recent public offering provided for the sale of our common stock at a price per share of \$10.50. On January 23, 2006, we closed the primary offering component of this offering of common stock. Although we closed the primary offering for the foreseeable future, we have retained the right to recommence the primary offering at any time during the effectiveness of our public offering. In addition, we will continue to offer shares of our common stock through our distribution reinvestment plan. As of March 7, 2006, there were approximately 36,000 shareholders of record.

In order for NASD members and their associated persons to have participated in the offering and sale of shares of common stock pursuant to our public offering or to participate in any future offering of our shares, we are required pursuant to NASD Rule 2710(c)(6) to disclose in each annual report distributed to shareholders a per share estimated value of the shares, the method by which it was developed and the date of the data used to develop the estimated value. In addition, our advisor must prepare annual statements of estimated share values to assist fiduciaries of retirement plans subject to the annual reporting requirements of ERISA in the preparation of their reports relating to an investment in our shares. For these purposes, the estimated value of the shares was deemed to be \$10.50 per share as of December 31, 2005. The basis for this valuation is the fact that, as of December 31, 2005, we were conducting our fourth public offering of our shares at the price of \$10.50 per share to third-party investors through arms-length transactions and we continued to offer shares in this offering at that price through January 23, 2006, the date on which we closed the primary component of the offering. However, there is no significant public trading market for the shares at this time, and there can be no assurance that shareholders could receive \$10.50 per share if such a market did exist and they sold their shares or that they will be able to receive such amount for their shares in the future. Moreover, we have not performed an appraisal of our properties; as such, this valuation is not necessarily based upon the appraised value of our properties, nor does it necessarily represent the amount shareholders would receive if our properties were sold and the proceeds distributed to our shareholders in a liquidation, which amount may be less than \$10.50 per share, because at the time we were purchasing our properties, the amount of funds available for investment in properties was reduced by selling commissions and dealer manager fees, organization and offering costs and acquisition and advisory fees and expenses, as described in more detail in the notes to our consolidated financial statements included in this report. As a result, it would be expected that, in the absence of other factors affecting property values, our aggregate net asset value may be less than the proceeds of our offerings and may not be the best indicator of the value of shares purchased as a long term income producing investment. In addition, we may conduct additional public offerings of our common stock. Prior to providing a liquidity event for our shareholders, our board of directors will determine the public offering price of our shares of common stock for future public offerings, which may or may not be the same as the public offering price of our past and current public offerings.

**Distribution Reinvestment Plan**

We maintain a distribution reinvestment plan for our investors to help facilitate investments in our shares. Our distribution reinvestment plan, subject to certain share ownership restrictions, allows investors to automatically reinvest regular distributions by purchasing additional shares from us at a discount purchase price equal to the current or most recent offering price of our common stock less a five percent (5%) discount. Until there is more than a de minimus amount of trading in our common stock, the fair market value of our common stock purchased from us under the distribution reinvestment plan will be the same as the price of a share in the current or most recent offering. As of the date of this filing, the purchase price, as determined using the most recent offering price, was \$10.50 and therefore participants of the distribution reinvestment plan are able to purchase shares at \$9.975 per share.

Our board of directors may by majority vote (including a majority of our independent directors) amend or terminate the distribution reinvestment plan for any reason upon 10 days written notice to plan participants.

**Table of Contents****Share Redemption Program**

We have also established a share redemption program that provides investors with limited interim liquidity. As long as our common stock is not listed on a national securities exchange or traded on an over-the-counter market, shareholders of Dividend Capital Trust or limited partner unit holders of our partnership who have held their shares or units for at least one year may be able to redeem all or any portion of their shares or units in accordance with the procedures outlined in the prospectus relating to the shares or units they purchased. At that time, we may, subject to certain conditions and limitations, redeem the shares or units presented for redemption for cash to the extent that we have sufficient funds available to us to fund such redemption. The amount received by investors from the redemption of shares or units will be equal to the lesser of the price actually paid for the shares or units or the redemption price, which is dependent on the number of years the shares or units are held. For shares purchased in our fourth public offering and for units obtained through our partnership's private placement, the redemption price is as described in the following table.

Share Purchase Anniversary	Redemption Price as a Percentage of Purchase Price (1)
Less than 1	No Redemption Allowed
1	92.5%
2	95.0%
3	97.5%
4	100.0%

- (1) This plan is subject to change at the discretion of our board of directors and in no event will the redemption price exceed the then current offering price of our common stock (excluding sales from our distribution reinvestment plan).

We expect to continue to fund the redemption of our shares or units pursuant to our share redemption program with proceeds received from the sale of shares pursuant to our distribution reinvestment plan. The table below sets forth information regarding our redemption of common stock from our shareholders for the quarter ended December 31, 2005.

Period	Total Number of Shares Repurchased (1)	Average Price per Share
October 2005	13,938	\$ 9.34
November 2005	2,500	10.00
December 2005	415,323	9.48
Total	431,761	\$ 9.48

- (1) These shares were redeemed pursuant to our share redemption program.

During any calendar year we presently intend to limit the number of shares redeemed pursuant to our share redemption program to the lesser of: (1) three percent (3.0%) of the weighted average number of shares outstanding during the prior calendar year and (2) that number of shares we can redeem with the proceeds we receive from the sale of shares under our distribution reinvestment plan. In either case, the aggregate amount of redemptions under our share redemption program is not expected to exceed aggregate proceeds received from the sale of shares pursuant to our distribution reinvestment plan. The board of directors, in its sole discretion, may choose to use other sources of funds to redeem shares.

**Distributions**

We qualified as a REIT for federal tax purposes commencing with our taxable year ending December 31, 2003. In order to qualify and remain qualified as a REIT, among other things, we are required to distribute at least 90% of our annual taxable income to our shareholders.





**Table of Contents**

Our board of directors declares the following quarterly annualized distribution before the first day of the quarter. We will calculate our distributions based upon daily record and distribution declaration dates so investors will be eligible to earn distributions immediately upon purchasing their investment. We intend to declare and pay distributions on a quarterly basis. The following table sets forth the distributions that have been paid and/or declared to date by our board of directors.

Quarter	Amount Declared per Share/Unit (1)	Annualized Amount Per Share/Unit (1)	Date Paid
2 <sup>nd</sup> Quarter 2003	\$ 0.1558	\$ 0.625	July 15, 2003
3 <sup>rd</sup> Quarter 2003	\$ 0.1575	\$ 0.625	October 15, 2003
4 <sup>th</sup> Quarter 2003	\$ 0.1575	\$ 0.625	January 15, 2004
1 <sup>st</sup> Quarter 2004	\$ 0.1591	\$ 0.640	April 15, 2004
2 <sup>nd</sup> Quarter 2004	\$ 0.1591	\$ 0.640	July 15, 2004
3 <sup>rd</sup> Quarter 2004	\$ 0.1609	\$ 0.640	October 15, 2004
4 <sup>th</sup> Quarter 2004	\$ 0.1609	\$ 0.640	January 18, 2005
1 <sup>st</sup> Quarter 2005	\$ 0.1578	\$ 0.640	April 15, 2005
2 <sup>nd</sup> Quarter 2005	\$ 0.1596	\$ 0.640	July 15, 2005
3 <sup>rd</sup> Quarter 2005	\$ 0.1613	\$ 0.640	October 17, 2005
4 <sup>th</sup> Quarter 2005	\$ 0.1613	\$ 0.640	January 17, 2006
1 <sup>st</sup> Quarter 2006	\$ 0.1578	\$ 0.640	April 17, 2006(2)

- (1) Assumes share/unit was owned for the entire quarter.  
(2) Anticipated payment date.

Our distributions to shareholders are characterized for federal income tax purposes as ordinary income or non-taxable return of capital. Distributions that exceed our current and accumulated earnings and profits after depreciation (as calculated for tax purposes) constitute a return of capital for tax purposes rather than a dividend and reduce the shareholders' basis in the common shares. We notify shareholders of the taxability of distributions paid during the preceding year on an annual basis. The following summarizes the taxability of distributions on common shares for the years ended December 31, 2005, 2004 and 2003:

Distribution Taxability	For the Year Ended December 31,					
	2005		2004		2003	
	Per Share Amount	Percentage	Per Share Amount	Percentage	Per Share Amount	Percentage
Ordinary Income	\$ 0.408	63.8%	\$ 0.378	59.1%	\$ 0.249	39.8%
Return of Capital	0.232	36.2%	0.262	40.9%	0.376	60.2%
<b>Total</b>	<b>\$ 0.640</b>	<b>100.0%</b>	<b>\$ 0.640</b>	<b>100.0%</b>	<b>\$ 0.625</b>	<b>100.0%</b>

**Partnership Units**

Dividend Capital Trust serves as the general partner of our partnership and currently owns 200 general partnership units for which we contributed \$2,000. As of December 31, 2005 and 2004, we held 133,206,784 and 67,719,683 partnership units, respectively, and owned, as of each such date, approximately 99% of our partnership.

Pursuant to our partnership's private placement (as more fully described in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations), as of December 31, 2005, we had issued 1.7 million limited partnership units to third-party investors. No such partnership units had been issued to third-party investors prior to 2005. Pursuant to our partnership's private placement, these limited partnership units were issued in exchange for tenancy-in-common interests in our properties, at a price equal to the price per share of our common stock at the time of the exchange. Such limited partnership units are economically equivalent to our common stock including their participation in distributions and in the share redemption program.



## **Table of Contents**

Our advisor currently owns 20,000 limited partnership units of our partnership, for which it contributed \$200,000. Our advisor may not sell any of these units during the period it serves as our advisor. The parent of our advisor owns 10,000 limited partnership units referred to as Special Units, for which it contributed \$1,000.

Amounts distributable to the holder of the Special Units will depend on operations and the amount of net sales proceeds received from property dispositions. In general, after holders of regular partnership interests have in the aggregate, received cumulative distributions equal to their capital contributions plus a 7% pre-tax cumulative non-compounded annual return on their net contributions, the holder of the Special Units and the holders of regular partnership interests will receive 15% and 85%, respectively, of the net sales proceeds received by our partnership upon the disposition of our partnership's assets.

The Special Units may be redeemed by our partnership for cash or shares of our common stock upon the occurrence of specified events that result in a termination or non-renewal of the Advisory Agreement. If the Advisory Agreement is terminated by Dividend Capital Trust for cause, the redemption price shall be \$1. If our shares are listed for public trading or if the Advisory Agreement is terminated upon the occurrence of certain other events, the redemption price of the Special Units will be the amount which would have been distributed to the holder of the Special Units in accordance with the partnership agreement of our partnership out of the net sales proceeds. Net sales proceeds will be determined by the public market prices in the event of a listing of our shares or by the net sales proceeds received in the event of the disposition of our properties. In the case of certain other events, net sales proceeds will be determined by the then fair market value of our partnership's assets, as determined by an appraisal, less all of its liabilities.

## **Recent Sales of Unregistered Securities**

Pursuant to our partnership's private placement, on October 27, 2005 and December 29, 2005, our partnership issued 570,950 and 751,751 limited partnership units, respectively, to certain accredited investors in conjunction with the exercise of certain purchase options pursuant to which our partnership had the right to acquire tenancy-in-common interests in certain industrial properties from such investors. Such investors had previously acquired such tenancy-in-common interests from our partnership primarily to serve as replacement property for such investors seeking to complete a like-kind exchange transaction under Section 1031 of the Internal Revenue Code. The limited partnership units issued in October 2005 had a collective issue price of approximately \$6.0 million and the limited partnership units issued in December 2005 had a collective issue price of approximately \$7.9 million. The securities were issued in reliance on Rule 506 of Regulation D and/or Section 4(2) of the Securities Act, as amended. The investors received a confidential private placement memorandum containing information about our partnership and their investment therein and made certain written representations, including representations as to their accredited investor status.

Each of these investors will generally have the right to cause our partnership to redeem all or a portion of its limited partnership units for, at our sole discretion, shares of our common stock or cash, or a combination of both. If we elect to redeem limited partnership units for shares of our common stock, we will generally deliver one share of our common stock for each limited partnership unit redeemed. If we elect to redeem limited partnership units for cash, we will generally deliver cash to be paid in an amount equal to the most recent selling price of our common stock per redeemed partnership unit. In connection with the exercise of these redemption rights, the investor must make certain representations, including that the delivery of shares of our common stock upon redemption would not result in such investor owning shares in excess of our ownership limits in our articles of incorporation. Subject to the foregoing, the investor may exercise its redemption rights at any time after one year following the date of issuance of its limited partnership units; provided, however, that it may not deliver more than two redemption notices each calendar year and may not exercise a redemption right for less than 1,000 limited partnership units, unless it holds less than 1,000 units, in which case, it must exercise its redemption right for all of its units.

## **Equity Compensation Plans**

Information about securities authorized for issuance under our equity compensation plans required for this Item is incorporated by reference from our definitive Proxy Statement to be filed in connection with our 2006 annual meeting of shareholders.

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The following table sets forth selected financial data relating to our historical financial condition and results of operations for the periods ended 2005, 2004, 2003, and 2002, as well as our quarterly results of operations data for the year ended December 31, 2005. Certain amounts presented for the periods ended 2004, 2003 and 2002 have been reclassified to conform to the 2005 presentation. The financial data in the table is qualified in its entirety by, and should be read in conjunction with, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes in Item 8. Financial Statements and Supplementary Data. The amounts in the table are in thousands except for per share information.

	Year ended December 31,			For the Period From Inception (April 12, 2002) to December 31, 2002
	2005	2004	2003	
<b>Operating Data:</b>				
Rental revenue	\$ 121,798	\$ 34,677	\$ 2,645	\$
Interest and other real estate income	6,126	1,421	61	
Total revenue	127,924	36,098	2,706	
Rental expenses	28,770	7,205	367	
Depreciation and amortization	71,023	19,273	1,195	
Interest expense	28,712	5,978	385	
General and administrative expenses	3,004	2,372	412	213
Asset management fees, related-party	8,901	1,525		
Minority interest	(526)			200
Net income (loss)	\$ (11,960)	\$ (255)	\$ 347	\$ (13)
<b>Common Share Distributions:</b>				
Common share cash distributions declared	\$ 62,292	\$ 24,263	\$ 2,452	\$
Common share cash distributions declared per share	\$ 0.640	\$ 0.640	\$ 0.625	\$
<b>Per Share Data:</b>				
Basic earnings (loss) per common share	\$ (0.12)	\$ (0.01)	\$ 0.09	\$ (63.56)
Diluted earnings (loss) per common share	\$ (0.12)	\$ (0.01)	\$ 0.09	\$ (63.56)
<b>Other Data:</b>				
Reconciliation of net income (loss) to funds from operations (1):				
Net income (loss) attributable to common shares	\$ (11,960)	\$ (255)	\$ 347	\$ (13)
Add:				
Real estate related depreciation and amortization	71,023	19,273	1,195	
Subtract:				
Minority interest in net loss	526			
Minority interest in funds from operations	1,364			
Funds from operations attributable to common shares	\$ 57,173	\$ 19,018	\$ 1,542	\$ (13)
Basic funds from operations per common share	\$ 0.59	\$ 0.50	\$ 0.39	\$ (63.56)
Diluted funds from operations per common share	\$ 0.59	\$ 0.50	\$ 0.38	\$ (63.56)
<b>Weighted average common shares outstanding:</b>				
Basic	97,333	37,908	3,987	

Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

Diluted	97,774	37,928	4,007	
Net cash provided by (used in) operating activities	\$ 66,295	\$ 21,452	\$ 1,700	\$ (139)
Net cash used in investing activities	\$ (750,877)	\$ (560,036)	\$ (149,948)	\$
Net cash provided by financing activities	\$ 755,980	\$ 558,027	\$ 152,314	\$ 150

**Table of Contents**

	March 31, 2005	For the Quarter Ended		December 31, 2005
		June 30, 2005	September 30, 2005	
<b>Reconciliation of net income (loss) to funds from operations(1):</b>				
Net Income (loss) attributable to common shares	\$ (2,581)	\$ 748	\$ (6,198)	\$ (3,929)
<b>Add:</b>				
Real estate related depreciation and amortization	12,350	14,192	21,178	23,303
Minority interest in net income (loss)		3	(287)	(242)
<b>Subtract:</b>				
Minority interest in funds from operations		66	518	780
Funds from operations attributable to common shares	\$ 9,769	\$ 14,877	\$ 14,175	\$ 18,352
Basic funds from operations per common share	\$ 0.13	\$ 0.17	\$ 0.14	\$ 0.15
Diluted funds from operations per common share	\$ 0.13	\$ 0.17	\$ 0.14	\$ 0.15
<b>Weighted average common shares outstanding</b>				
Basic	74,421	88,066	104,224	121,097
Diluted	74,441	88,473	104,668	121,975
		<b>As of December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
<b>Balance Sheet Data:</b>				
Net investment in real estate	\$ 1,904,411	\$ 732,202	\$ 150,633	\$
Total assets	2,057,695	784,808	156,608	751
Line of credit	16	4	1,000	
Mortgage notes	642,242	142,755	40,500	
Total liabilities	869,307	203,593	49,782	761
Total shareholders' equity (deficit)	1,132,811	581,214	106,824	(11)
Minority interest	55,577	1	1	1
Number of common shares outstanding	133,207	67,720	12,470	2

- (1) We believe that funds from operations ( FFO ), as defined by the National Association of Real Estate Investment Trusts ( NAREIT ), is a meaningful supplemental measure of our operating performance because historical cost accounting for real estate assets in accordance with GAAP implicitly assumes that the value of real estate assets diminishes predictably over time, as reflected through depreciation and amortization expenses. However, since real estate values have historically risen or fallen with market and other conditions, many industry investors and analysts have considered presentation of operating results for real estate companies that use historical cost accounting to be insufficient. Thus, NAREIT created FFO as a supplemental measure of operating performance for real estate investment trusts that excludes historical cost depreciation and amortization, among other items, from net income, as defined by GAAP. We believe that the use of FFO, combined with the required GAAP presentations, has been beneficial in improving the understanding of operating results of real estate investment trusts among the investing public and making comparisons of operating results among such companies more meaningful. We consider FFO to be a useful measure for reviewing our comparative operating and financial performance because, by excluding gains or losses related to sales of previously depreciated operating real estate assets and real estate depreciation and amortization, FFO can help the investing public compare the operating performance of a company's real estate between periods or as compared to other companies.

---

**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2005 and 2004, and for the years ended December 31, 2005, 2004 and 2003. This report on Form 10-K contains certain forward-looking statements. When used in this report, the words "may", "will", "expect", "anticipate", "continue", "estimate", "project", "intend", "believe", and similar expressions are intended to identify forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. There are various factors that could cause actual results to differ materially from those which are expressed in, or implied by such forward-looking statements. Such factors include, but are not limited to, changes in general economic conditions, changes in real estate conditions, changes in interest rates, the amount of equity capital provided by our public offerings, the availability of debt financing on favorable terms, the ability to acquire and lease properties on favorable terms and the ability of customers to make payments under their respective leases. Readers of this report are cautioned to consider these uncertainties in connection with all forward-looking statements.

**Overview**

Dividend Capital Trust Inc. was formed as a Maryland corporation in April 2002 in order to invest in commercial real estate properties consisting primarily of high-quality, generic distribution warehouses and light industrial properties leased to creditworthy corporate customers. In order to provide capital for these investments, we have sold our common stock through four distinct public offerings, raised capital through our partnership's private placement (as more fully described below) and issued and assumed debt. As of January 23, 2006, we closed the primary component of our fourth public offering and, as a result, we have stopped raising capital through the sale of our common stock. However, we will continue to raise significant amounts of capital through our partnership's private placement and through the issuance of debt.

Our primary focus is to continue to build an industrial real estate operating company that owns, develops, and operates a high-quality diversified portfolio of bulk distribution and light industrial properties in the leading logistics and distribution markets in North America.

The following discussion first describes certain significant transactions that occurred during the year ended December 31, 2005 and certain recent developments, and then compares and contrasts our financial condition as of December 31, 2005, 2004 and 2003 as well as our results of operations for the years then ended. We acquired our first property in June of 2003 and have built a portfolio of 264 properties through December 31, 2005. As a result of these acquisitions, we have experienced significant changes in our operating and financing activities during the past three years.

**Significant Transactions During 2005 and Recent Developments**

We have experienced a substantial increase in acquisition activity since we acquired our first property in June 2003. As a result of our investment strategy, we currently own or control 264 operating properties comprising 40.3 million square feet located in 23 markets, including 22 of our target markets. We acquired 158 of these properties for a total estimated cost of approximately \$1.2 billion during 2005 using net proceeds from our public offerings, our partnership's private placement and debt financings including the assumption of 19 secured, non-recourse notes totaling \$434.1 million.

Beginning on February 2, 2005, and ending on May 13, 2005, we acquired seven bulk distribution properties comprising approximately 3.6 million square feet for a total estimated cost of approximately \$132.8 million in connection with our purchase agreement with Panattoni Development Company LLC, an unrelated third-party. We assumed four secured, non-recourse mortgage notes totaling approximately \$30.6 million associated with the acquisition of these properties.



**Table of Contents**

On April 8, 2005, in connection with our partnership's private placement, we issued 424,352 limited partnership units valued at approximately \$4.5 million in exchange for certain fractional tenancy-in-common interests we had previously sold in a property located in Memphis, Tennessee.

On May 13, 2005, we entered into an agreement to purchase a distribution facility that is currently being developed in Memphis, Tennessee and will comprise approximately 885,000 square feet upon completion. We currently estimate that the facility will be completed early in 2006 with a minimum purchase price equal to actual development costs. The purchase price may vary depending on certain variables including the status of leasing on the date of acquisition.

On May 19, 2005, we entered into a joint venture agreement with SV Atlanta SouthCreek IV, L.P., an unrelated third-party, to acquire 37 acres of land and to develop a 556,800 square foot distribution facility located in Atlanta, Georgia. Pursuant to the joint venture agreement, SV Atlanta SouthCreek IV, L.P. and we will provide approximately 3% and 97%, respectively, of the required equity capital, which is estimated to be approximately \$5.6 million, to fund the development project. Both parties will receive an 8.25% preferred return on their respective capital contributions. We have the right to purchase SV Atlanta SouthCreek IV, L.P.'s interest in the venture at anytime after the later to occur of (i) stabilization of the project, and (ii) the date 18 months after completion of the project. We currently estimate that the facility will be completed early in 2006 for a total estimated cost of approximately \$16.5 million.

On July 21, 2005, we completed a merger with Cabot Industrial Value Fund, Inc. ( Cabot ), an unrelated third-party, whereby we acquired all of the outstanding shares of Cabot's common stock for approximately \$312.6 million. However, after certain equity contributions and distributions, as of December 31, 2005, our investment was approximately \$302.4 million. Through our ownership of Cabot, we acquired an approximate 87% interest in Cabot Industrial Value Fund, LP, which, as of December 31, 2005, owned a portfolio of 104 properties with a total historical cost of approximately \$654.5 million which is located in 12 markets throughout the United States and had approximately \$308.8 million of mortgage debt outstanding. As of December 31, 2005, this portfolio was 89.6% leased (see Note 3 Real Estate to the consolidated financial statements).

On October 27, 2005, in connection with our partnership's private placement, we issued 570,950 limited partnership units valued at approximately \$6.0 million in exchange for certain fractional tenancy-in-common interests we had previously sold in a property located in Memphis, Tennessee.

On December 9, 2005, we amended our existing \$225 million senior secured revolving credit facility such that it is now a \$250 million unsecured facility that matures in December 2008.

On December 29, 2005, in connection with our partnership's private placement, we issued 751,751 limited partnership units valued at approximately \$7.9 million in exchange for certain fractional tenancy-in-common interests we had previously sold in a property located in Atlanta, Georgia.

On January 4, 2006, we issued \$50 million of unsecured, non-recourse debt with a fixed interest rate of 5.68% maturing in January 2014. In addition, we finalized the terms of \$100 million of additional unsecured debt to be issued by April 27, 2006. All the notes require quarterly payments of interest only.

On January 23, 2006, we closed the primary offering component of our fourth public offering of common stock. Although we closed the primary offering for the foreseeable future, we have retained the right to recommence the primary offering at any time during the effectiveness of our public offering. In addition, we will continue to offer shares of our common stock through our distribution reinvestment plan.

On February 21, 2006, we entered into a joint venture agreement with affiliates of Boubyan Bank of Kuwait whereby we contributed six properties with an approximate value of \$123 million to an institutional fund. We

## Table of Contents

retained a 20% equity interest in the venture and our partner retained the other 80% equity interest. The fund's day-to-day business affairs are managed by us and all major decisions are determined by both partners. In connection with this transaction, we also issued approximately \$95.5 million of secured non-recourse debt with a stated interest rate of 5.53% maturing in March 2012. Pursuant to our joint venture agreement, we act as asset manager for the joint venture and we will earn certain asset management fees related to the properties we manage.

### **Liquidity and Capital Resources**

We are not aware of any material trends or uncertainties, favorable or unfavorable, other than national economic conditions affecting real estate generally, which we anticipate may have a material impact on either capital resources or the revenues or income to be derived from the operation of real estate properties. We believe that capital will continue to flow into the real estate industry and industrial real estate in particular, which will continue to foster a competitive environment for the assets we are seeking to acquire. Consequently, we, through the activities of our advisor, have assembled a team of 38 professionals with over 450 years of aggregate experience who are dedicated to the acquisition and operation of properties that meet our investment criteria. The ability of our advisor to find and acquire these properties at a pace that is consistent with the capital that has been raised through our public offerings, and that has and will continue to be raised through our partnership's private placement and other financing activities, will directly impact our financial performance and the metrics that management uses to evaluate our performance, including funds from operations available to pay distributions.

Management expects that our principal sources of working capital and funding for acquisitions and potential capital requirements for expansion and renovation of properties will include:

Borrowings under our unsecured credit facility;

Other forms of secured or unsecured financing;

Capital from co-investment partners;

Additional proceeds from our fourth public offering of common stock;

Proceeds from our partnership's private placement;

Proceeds from our distribution reinvestment plan; and

Cash flow from operations.

Over the short term, we believe that our sources of capital, specifically our cash flow from operations, borrowings under our unsecured credit facility, the remaining proceeds from our fourth public offering and our ability to raise capital through our partnership's private placement are adequate and will continue to be adequate to meet our liquidity requirements and capital commitments. These liquidity and capital requirements and commitments include the payment of debt service, regular quarterly investor distributions, capital expenditures at our properties, forward purchase commitments (as more fully described below), the purchase of 25 properties which are currently the subject of an executed letter of intent, under contract or have closed since December 31, 2005 and future acquisitions of unidentified properties. The properties that had been identified as of December 31, 2005 total 5.8 million square feet and have an aggregate purchase price of approximately \$263.2 million. We anticipate that the acquisitions that have not yet closed will close over the next several months. However, the contracts related to these acquisitions are subject to a number of contingencies and there can be no assurances that these acquisitions will transpire.

Over the longer term, we anticipate that we will continue to utilize the same sources of capital, with the exception of the proceeds from our fourth public offering, that we rely on to meet our short term liquidity requirements. In addition, we may obtain capital through other secured and unsecured financings or from co-investment partners and we may also conduct additional public offerings or recommence our fourth public



---

**Table of Contents**

offering. We expect these resources will be adequate to fund our operating activities, including debt service and distributions, which we anticipate will grow over time, and will be sufficient to fund our ongoing acquisition activities as well as providing capital for investment in future development and other joint ventures along with additional potential forward purchase commitments. Over the longer term, we also expect that our cash flow from operations will be sufficient to adequately fund our regular distributions. In addition, we intend to seek to enter into additional joint ventures similar to the one we entered into on February 21, 2006 (as described above), and expect that our cash flow from operations over the longer term will be comprised of both rents from our properties and fees earned for asset management and other services performed on behalf of such joint ventures.

During the years ended December 31, 2005, 2004 and 2003, our cash generated from financing activities increased year to year and we generated approximately \$756.0 million, \$558.0 million, and \$152.3 million, respectively. During these years, we generated net proceeds of approximately \$737.2 million, \$522.2 million and \$112.0 million, respectively, through our public offerings and our partnership's private placement. In addition, we issued debt of approximately \$60.9 million, \$55.0 million and \$51.9 million, respectively. During the years ended December 31, 2005, 2004 and 2003, our cash provided by operating activities increased from year to year and we generated approximately \$66.3 million, \$21.5 million and \$1.7 million, respectively. These sources of capital were utilized to fund approximately \$750.3 million, \$548.5 million and \$149.6 million of cash invested in real estate during the years ended December 31, 2005, 2004 and 2003, respectively. Management anticipates that over time, debt proceeds as well as cash provided by operating activities will represent an increasing percentage of our sources of capital as will capital from co-investment partners.

***Public Offerings***

On April 15, 2002, we filed an S-11 registration statement with the SEC covering our first public offering of our common stock. The registration statement was declared effective on July 17, 2002 and we received approval of our offering in all 50 states in December 2002. The common stock was offered at a price of \$10 per share on a 200,000 share minimum, 25,000,000 share maximum, best-efforts basis. The registration statement also covered up to 4,000,000 shares available pursuant to our distribution reinvestment plan and up to 1,000,000 shares issuable upon the exercise of warrants issued to the Dealer Manager for a price of \$.001 per share for every 25 shares sold. Until we received subscriptions covering at least 200,000 shares from at least 100 non-affiliated investors, offering proceeds were required to be held in escrow. The escrow conditions were satisfied on February 10, 2003, at which time 226,567 shares of common stock were issued to investors. In April 2004, we completed our first public offering and sold approximately 25.5 million shares of our common stock for gross proceeds of approximately \$254.4 million, which includes shares issued pursuant to our distribution reinvestment plan.

Our second offering began immediately following the completion of the initial offering. The second registration statement was filed on February 27, 2004, and was declared effective on April 16, 2004. The registration statement offered common stock at a price of \$10 per share for a maximum of 30,000,000 shares. The registration statement also covered up to 10,000,000 shares available pursuant to our distribution reinvestment plan as well as up to 1,200,000 shares issuable upon the exercise of warrants sold to the Dealer Manager for a price of \$.001 per share for every 25 shares sold. In October 2004, we completed our second public offering and sold approximately 30.4 million shares of our common stock for gross proceeds of approximately \$302.8 million, which includes shares issued pursuant to our distribution reinvestment plan.

Our third offering began immediately following the second offering. On June 28, 2004, we filed our third registration statement and this registration statement was declared effective by the SEC, and the offering commenced on October 18, 2004. The common stock was offered at a price of \$10.50 per share for a maximum of 40,000,000 shares. The registration statement also covered up to 13,000,000 shares available pursuant to our distribution reinvestment plan. On June 24, 2005, we concluded our third public offering having sold approximately 40.7 million shares of our common stock for gross proceeds of approximately \$424.7 million, which includes shares issued pursuant to our distribution reinvestment plan.

## **Table of Contents**

Our fourth offering began immediately following the third offering. The fourth registration statement was filed on January 24, 2005 and was declared effective by the SEC on June 9, 2005, and we commenced the offering on June 27, 2005. The related prospectus covers a maximum of \$1,000,000,000 in shares of our common stock comprised of two components: (i) an offering of up to 72,770,273 shares to the public at a price of \$10.50 per share, which we refer to as our primary offering, and (ii) an offering of up to 23,650,339 shares to participants in our distribution reinvestment plan at \$9.975 per share. On January 23, 2006, we closed the primary offering component of our fourth public offering, but we will continue to offer shares pursuant our distribution reinvestment plan. As of March 7, 2006, we had sold approximately 53.7 million shares pursuant to our fourth public offering for total gross proceeds of approximately \$557.9 million, which includes shares issued pursuant to our distribution reinvestment plan.

As of December 31, 2005, 133,206,784 shares of common stock were issued and outstanding. The net proceeds from the sale of these securities were transferred to our partnership on a one-for-one basis for limited partnership units. Although we have closed the primary offering component of our fourth public offering, we will continue to offer shares through our distribution reinvestment plan. In the future, we anticipate that our principal sources of funding for the purchase of industrial properties will include proceeds from debt financings, capital from co-investment partners, our partnership's private placement and cash flow from operations. We may also conduct additional public offerings or recommence our fourth public offering.

Pursuant to the Advisory Agreement, our advisor is obligated to advance all of our offering costs, subject to its right to be reimbursed for such costs by us in an amount up to 2% of the gross offering proceeds raised. Such offering costs include but are not limited to actual legal, accounting, printing and other expenses attributable to preparing the SEC registration statements, qualification of the shares for sale in the states and filing fees incurred by our advisor, as well as reimbursements for marketing, salaries and direct expenses of its employees while engaged in registering and marketing the shares, other than selling commissions and the dealer manager fee (see below). During the years ended December 31, 2005, 2004 and 2003 as well as from the period of our inception (April 12, 2002) to December 31, 2002 our advisor incurred \$8.6 million, \$8.3 million, \$7.7 million and \$3.4 million, of offering costs, respectively. During the years ended December 31, 2005, 2004 and 2003, we reimbursed our advisor approximately \$13.3 million, \$10.9 million and \$3.3 million, respectively. We did not reimburse our advisor for any such costs during 2002. As of December 31, 2005, the un-reimbursed amount of offering costs incurred by our advisor, since inception (April 12, 2002), was approximately \$451,000. As described above, we closed the primary offering component of our fourth public offering on January 23, 2006 and we may fully reimburse our advisor for all remaining un-reimbursed offering costs.

Pursuant to the dealer manager agreements, we are obligated to pay the Dealer Manager a dealer manager fee and commissions up to 2.0% and 6.0%, respectively, of gross proceeds raised from our public offerings of common stock. During the years ended December 31, 2005, 2004 and 2003, we paid the Dealer Manager approximately \$49.9 million, \$41.9 million and \$11.0 million, respectively, of which \$36.6 million, \$31.0 million and \$8.2 million, respectively, had been re-allowed to broker-dealers participating in our public offerings.

### ***Our Partnership's Private Placement***

Our partnership is currently offering undivided tenancy-in-common interests in our properties to accredited investors in a private placement exempt from registration under the Securities Act. We anticipate that these tenancy-in-common interests may serve as replacement properties for accredited investors seeking to complete like-kind exchange transactions under Section 1031 of the Internal Revenue Code. Additionally, the tenancy-in-common interests sold to investors will be 100% leased by our partnership, and such leases will contain purchase options whereby our partnership will have the right, but not the obligation, to acquire the tenancy-in-common interests from the investors at a later point in time in exchange for limited partnership units in our partnership under Section 721 of the Internal Revenue Code.

**Table of Contents**

Our partnership pays certain up-front fees and reimburses certain related expenses to our advisor, the Dealer Manager and Dividend Capital Exchange Facilitators LLC (the Facilitator ) for raising capital through our partnership's private placement. Our advisor is obligated to pay all of the offering and marketing related costs associated with the private placement. However, our partnership is obligated to pay our advisor a non-accountable expense allowance which equals 2% of the gross equity proceeds raised through the private placement. In addition, our partnership is obligated to pay the Dealer Manager a dealer manager fee of up to 1.5% of the gross equity proceeds raised and a commission of up to 5% of the gross equity proceeds raised through the private placement. The Dealer Manager may re-allow such commissions and a portion of such dealer manager fee to participating broker dealers. Our partnership is also obligated to pay a transaction facilitation fee to the Facilitator, an affiliate of our advisor, of up to 1.5% of the gross equity proceeds raised through the private placement.

During the years ended December 31, 2005, 2004 and 2003, we raised \$145.3 million, \$29.9 million and \$2.7 million, respectively, from the sale of undivided tenancy-in-common interests in 27 buildings, which is included in financing obligations in the accompanying consolidated balance sheets pursuant to Statement of Financial Accounting Standards, or SFAS, No. 98 *Accounting for Leases* ( SFAS No. 98 ). We have leased the undivided tenancy-in-common interests sold to unrelated third parties, and in accordance with SFAS No. 98, a portion of the rental payments made to third parties under the lease agreements are recognized as interest expense using the interest method.

During the years ended December 31, 2005, 2004 and 2003, we incurred approximately \$3.9 million, \$750,000 and \$15,000, respectively, of rental expense under various lease agreements with these accredited investors. A portion of such amounts were accounted for as a reduction of the principal outstanding balance of the financing obligations and a portion was accounted for as an increase to interest expense in the accompanying consolidated financial statements. The various lease agreements in place as of December 31, 2005, contain expiration dates ranging from November 2013 to December 2025. The following table sets forth the five year, future minimum rental payments due to third parties under the various lease agreements (amounts are in thousands):

Year ended December 31,	Future Minimum Rental Payments
2006	\$ 12,148
2007	17,696
2008	19,114
2009	18,336
2010	17,629
Thereafter	113,698
<b>Total</b>	<b>\$ 198,621</b>

During the years ended December 31, 2005, 2004 and 2003, our partnership incurred upfront costs of approximately \$11.6 million, \$2.6 million and \$200,000 payable to our advisor and other affiliates for effecting these transactions which are accounted for as deferred loan costs. Such deferred loan costs are included on our consolidated balance sheets and amortized to interest expense over the life of the financing obligation. If our partnership elects to exercise any purchase option as described above and issue limited partnership units, the un-amortized portion of up-front fees and expense reimbursements paid to affiliates will be recorded against minority interest as a selling cost of the limited partnership units. If our partnership does not elect to exercise any such purchase option, we will continue to account for these transactions as a financing obligation because we will continue to sub-lease 100% of the properties and will therefore not meet the definition of active use set forth in SFAS No. 98.

---

## **Table of Contents**

During the year ended December 31, 2005, our partnership exercised purchase options pursuant to three individual master lease agreements to buy certain tenancy-in-common interests it had previously sold in two properties located in Memphis, Tennessee and one property located in Atlanta, Georgia. In connection with the exercise of these options, our partnership issued an aggregate of approximately 1.7 million limited partnership units valued at approximately \$18.3 million to acquire such tenancy-in-common interests (see Note 8 Our Partnership's Private Placement to the consolidated financial statements).

### ***Financing***

*Lines of Credit* In December 2005, we amended our existing \$225 million senior secured revolving credit facility such that it is now a \$250 million unsecured facility with a syndicated group of banks led by JP Morgan Securities. The facility matures in December 2008 and has provisions to increase its total capacity to \$400 million. At our election, the facility bears interest either at LIBOR plus 0.875% to 1.375%, depending upon our consolidated leverage, or at prime (7.25% at December 31, 2005) and is subject to an annual 0.25% facility fee. The facility contains various covenants including financial covenants with respect to consolidated leverage, net worth, unencumbered assets, interest and fixed charge coverage and secured debt to secured asset value. As of December 31, 2005, we were in compliance with all these covenants. As of December 31, 2005, we did not have an outstanding balance on this facility.

Contemporaneously with the amendment of our secured credit facility, we entered into a \$40 million senior secured revolving credit facility with a separate syndicated bank group led by JP Morgan Securities pursuant to which the bank group has agreed to advance funds to our partnership and third-party investors in our partnership's private placement using undivided tenancy-in-common interests in our buildings as collateral. The facility matures in December 2008 and has provisions to increase its total capacity to \$80 million. At our election, the facility bears interest either at LIBOR plus 1.25% to 1.75%, depending upon our consolidated leverage, or at prime (7.25% at December 31, 2005) and is subject to an unused facility fee. The facility contains various covenants including financial covenants with respect to consolidated leverage, net worth, interest and fixed charge coverage and secured debt to secured asset value. As of December 31, 2005, we were in compliance with all these financial covenants. According to the terms of the facility, in addition to our borrowings, any loans made to third-party investors in our partnership's private placement reduce the total capacity available from the facility. As of December 31, 2005, approximately \$14.1 million of loans had been advanced to such third parties and we had an outstanding balance of \$16,000.

*Debt Issuances* In September 2005, we issued \$3.9 million of secured, non-recourse debt with a fixed interest rate of 4.97% which matures in October 2013. The underlying note requires interest only payments until April 1, 2007 at which time monthly payments of principal and interest are required. In January 2005, we issued \$57.0 million of secured, non-recourse debt with a stated fixed interest rate of 4.40% which matures in 2010. The underlying notes required monthly payments of interest only until January 1, 2006 at which time monthly payments of principal and interest are required. In December 2004, we issued \$55.0 million of secured, non-recourse debt. The debt has a stated fixed interest rate of 5.31% and matures in 2015 and, prior to December 31, 2005, the underlying notes required monthly payments of interest only and thereafter monthly payments of principal and interest are required.

*Debt Assumptions* During the year ended December 31, 2005, we assumed nineteen secured, non-recourse notes, totaling \$434.1 million in conjunction with the acquisition of certain properties (see Note 3-Real Estate to the consolidated financial statements). These assumed notes bear interest at fixed and variable rates ranging from 4.72% to 8.50% and require monthly payments of either interest, or principal and interest. The maturity dates of such assumed notes range from February 2008 to November 2022. We assumed six of these notes totaling \$308.8 million in connection with our merger with Cabot on July 21, 2005. Pursuant to SFAS No. 141, *Business Combinations* (SFAS No. 141), the difference between the fair value and face value of these assumed notes at the date of acquisition resulted in a premium of approximately \$8.7 million, which is amortized to interest expense over the remaining life of the underlying notes.

**Table of Contents**

During the year ended December 31, 2004, we assumed five secured, non-recourse notes totaling \$45.6 million, in conjunction with the acquisition of five properties with stated interest rates ranging from 6.22% to 7.21%. All of these notes bear interest at a fixed rate and require monthly payments of principal and interest. They have maturity dates ranging from 2007 to 2012. Pursuant to SFAS No. 141, the difference between the fair value and face value of these notes at the date of acquisition resulted in a premium of approximately \$2.9 million, which is amortized to interest expense over the remaining life of the underlying notes.

As of December 31, 2005, the total historical cost of our properties was approximately \$2.0 billion and the total historical cost of properties securing our fixed rate mortgage debt was approximately \$1.2 billion. Our debt has various covenants and management believes it was in compliance with all of these covenants at December 31, 2005.

The following table sets forth the scheduled maturities of our debt, excluding unamortized premiums, as of December 31, 2005 (amounts are in thousands).

Year	Fixed Rate Mortgage Debt	Senior Secured Revolving Credit Facility	Total
2006	\$ 6,462	\$	\$ 6,462
2007	7,112		7,112
2008	69,240	16	69,256
2009	6,711		6,711
2010	57,224		57,224
2011	228,385		228,385
2012	182,658		182,658
2013	21,130		21,130
2014	2,486		2,486
2015	43,860		43,860
Thereafter	7,115		7,115
Total	\$ 632,383	\$ 16	\$ 632,399

**Debt Service Requirements**

As of December 31, 2005, we had total outstanding debt, excluding premiums of \$9.8 million and financing obligations of \$154.7 million (see Note 8 Our Partnership's Private Placement to the consolidated financial statements), of approximately \$632.4 million consisting primarily of secured, fixed-rate, non-recourse mortgage notes. All of these notes require monthly payments of interest and many require, or will ultimately require, monthly repayments of principal (see Note 5 Debt to the consolidated financial statements). Currently, funds from our operations are sufficient to satisfy these monthly debt service requirements and we anticipate that funds from our operations will continue to be sufficient to satisfy our regular monthly debt service.

**Forward Purchase Commitments**

*Deltapoint* On March 28, 2005, a wholly-owned subsidiary of our partnership entered into a joint venture agreement with Deltapoint Park Associates, LLC, an unaffiliated third-party, to acquire 47 acres of land and to develop an 885,000 square foot distribution facility located in Memphis, Tennessee. Deltapoint Park Partners LLC ( Deltapoint ), a Delaware limited liability company, was created for the purpose of conducting business on behalf of the joint venture. Pursuant to the operating agreement of Deltapoint, we were obligated to make the majority of the initial capital contributions and we received a preferred return on such capital contributions. Subsequent to the closing of a construction loan in May 2005, Deltapoint repaid us our initial capital contributions plus our preferred return and we ceased to be a member of Deltapoint. Contemporaneously with the closing of the construction loan, our partnership entered into a forward purchase commitment agreement whereby we are obligated to acquire the distribution facility from Deltapoint upon completion which can be satisfied under a variety of scenarios, mostly dependent upon leasing, with a minimum purchase price equal to actual development costs. We currently estimate that the facility will be completed early in 2006.





**Table of Contents**

**Buford Distribution Center** In October 2004, we entered into a forward purchase commitment with Wachovia Bank National Association ( Wachovia ) in connection with our commitment to acquire two buildings, referred to as the Buford Distribution Center, totaling 677,667 square feet from an unrelated third-party developer. We have entered into a binding agreement with Wachovia, the construction lender, to purchase the buildings at a price of up to \$29.0 million and thereby retire the related construction financing. Our obligation to acquire the buildings from the third-party developer upon completion can be satisfied under a variety of scenarios, mostly dependent upon leasing, with a minimum purchase price equal to actual development costs. We anticipate acquiring this property in March 2006 for approximately \$20 million using our remaining net proceeds from our fourth public offering, capital from our co-investment partners and debt.

**Distributions**

The payment of distributions is determined by our board of directors and may be adjusted at its discretion at any time. In December 2005, our board of directors set the 2006 distribution level at an annualized \$0.64 per share or limited partnership unit. The distribution was set by our board of directors at a level we believe to be appropriate and sustainable based upon the evaluation of existing assets within our portfolio, anticipated acquisitions, projected levels of additional capital to be raised, debt to be incurred in the future and the anticipated results of operations. Our board of directors declared the following distributions during the past three years: 2005 \$62.3 million; 2004 \$24.3 million and 2003 \$2.5 million. During the year ended December 31, 2005, we paid the following distributions: (i) \$9.7 million on January 17, 2005, for distributions declared in the fourth quarter of 2004, (ii) \$11.7 million on April 15, 2005, for distributions declared in the first quarter of 2005, (iii) \$14.1 million on July 15, 2005, for distributions declared in the second quarter of 2005 and (iv) \$16.9 million on October 17, 2005, for distributions declared in the third quarter of 2005. To fund total distributions in 2005, we utilized both funds from operations and debt proceeds. It is our objective to fund our distributions over time exclusively using funds from our operations.

**Distribution Reinvestment Plan**

Pursuant to our distribution reinvestment plan, \$34.4 million, \$12.9 million and \$1.3 million of the distributions declared during the years ended December 31, 2005, 2004 and 2003, were satisfied through the issuance of approximately 3.5 million, 1.3 million and 132,000 shares of our common stock, respectively, at a 5.0% discount from our then current public offering share price. Prior to October 18, 2004, the discounted purchase price for such shares was \$9.50 per share and thereafter the purchase price was \$9.975 per share.

**Contractual Obligations**

The following table reflects our contractual obligations as December 31, 2005, specifically our obligations under long-term debt agreements, operating lease agreements and purchase obligations (amounts are in thousands):

Contractual Obligations	Total	Payments due by Period			
		Less than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
Long-Term Debt	\$ 823,811	\$ 40,703	\$ 175,783	\$ 330,797	\$ 276,528
Operating Leases(1)	198,621	12,148	36,810	35,965	113,698
Purchase Obligations(2)	55,700	55,700			
Total	\$ 1,078,132	\$ 108,551	\$ 212,593	\$ 366,762	\$ 390,226

(1) As of December 31, 2005, we had 17 operating lease obligations, all of which were in connection with our partnership's private placement.

(2) As of December 31, 2005, we had entered into two agreements to acquire certain properties in the future upon completion by third-party developers as more fully described above.

**Table of Contents**

**Off-Balance Sheet Arrangements**

As of December 31, 2005, 2004 and 2003, respectively, we had no material off-balance sheet arrangements 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.

**Results of Operations**

***Summary***

In June 2003, we acquired our first property and, as of December 31 2005, we had assembled a portfolio of 264 properties located in 23 markets. Specifically, we acquired 158 properties during the year ended December 31, 2005, 93 properties during the year ended December 31, 2004 and 13 properties during the year ended December 31, 2003. All of these properties were acquired using net proceeds from our public offerings, our partnership s private placement and debt proceeds. As a result of our significant acquisition activity during the years ended December 31, 2005 and 2004, the revenues and expenses from our operations increased significantly from year to year. During the year ended December 31, 2003, the revenues and expenses from our operations were relatively less when compared to the years ended December 31, 2005 and 2004 as a result of our limited operating history and a lower level of acquisition activity prior to 2004. For more detailed information regarding the operating properties that we majority owned and/or controlled on a consolidated basis as of December 31, 2005 and 2004, respectively, see Item 2. Properties .

**Table of Contents****Comparison of the Year Ended December 31, 2005 to the Year Ended December 31, 2004**

The following table illustrates the changes in rental revenues, rental expenses, net operating income, other income and other expenses for the year ended December 31, 2005 compared to the year ended December 31, 2004. Our same store properties include all properties owned from January 1, 2004 through December 31, 2005. A discussion of these changes follows the table (dollar amounts are in thousands).

	<b>Year Ended December 31,</b>		
	<b>2005</b>	<b>2004</b>	<b>Change</b>
<b>Rental Revenue</b>			
Same store	\$ 15,219	\$ 14,537	\$ 682
2005 acquisitions	47,861		47,861
2004 acquisitions	58,718	20,140	38,578
<b>Total rental revenue</b>	<b>121,798</b>	<b>34,677</b>	<b>87,121</b>
<b>Rental Expenses</b>			
Same store	3,125	3,047	78
2005 acquisitions	10,479		10,479
2004 acquisitions	15,166	4,158	11,008
<b>Total rental expenses</b>	<b>28,770</b>	<b>7,205</b>	<b>21,565</b>
<b>Net Operating Income (1)</b>			
Same store	12,094	11,490	604
2005 acquisitions	37,382		37,382
2004 acquisitions	43,552	15,982	27,570
<b>Total net operating income</b>	<b>93,028</b>	<b>27,472</b>	<b>65,556</b>
<b>Other Income</b>			
Gain on the early termination of leases, net	2,285	1	2,284
Interest and other income	3,733	875	2,858
Gain on hedges	108	545	(437)
<b>Total other income</b>	<b>6,126</b>	<b>1,421</b>	<b>4,705</b>
<b>Other Expenses</b>			
Depreciation and amortization	71,023	19,273	51,750
Interest	28,712	5,978	22,734
General and administrative	3,004	2,372	632
Asset management fees, related party	8,901	1,525	7,376
<b>Total other expenses</b>	<b>111,640</b>	<b>29,148</b>	<b>82,492</b>
<b>Minority Interest</b>	<b>526</b>		<b>526</b>
<b>Net loss</b>	<b>\$ (11,960)</b>	<b>\$ (255)</b>	<b>\$ (11,705)</b>

(1) See Note 18 Segment Information to the consolidated financial statements for further discussion of net operating income.  
*Rental Revenue*

Rental revenue increased by approximately \$87.1 million for the year ended December 31, 2005 compared to the same period in 2004, primarily as a result of (i) the rental revenue generated from the 158 properties that were acquired during the year ended December 31, 2005, and (ii) rental revenue for the 93 properties that were acquired during the year ended December 31, 2004 being higher in 2005 than in 2004 as rental revenue associated with these properties during 2004 did not reflect an entire period of operations as compared to 2005 wherein these properties were operating for a full twelve months.

## Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

Same store rental revenue increased by approximately \$682,000 for the year ended December 31, 2005 compared to the same period in 2004, due to rental rate increases as well as an increase in occupancy that occurred subsequent to December 31, 2004.

## **Table of Contents**

### *Rental Expenses*

Rental expenses increased by approximately \$21.6 million for the year ended December 31, 2005 compared to the same period in 2004, primarily as a result of (i) the acquisition of 158 properties during 2005, and (ii) rental expenses for the 93 properties acquired in 2004 being higher in 2005 than in 2004 as rental expenses associated with these properties during 2004 did not reflect an entire period of operations as compared to 2005 wherein these properties were operating for a full twelve months.

Same store rental expenses increased by approximately \$78,000 for the year ended December 31, 2005 compared to the same period in 2004, primarily due to increased real estate taxes and utilities expenses which was partially offset by a decrease in insurance premiums.

### *Other Income*

Other income increased by approximately \$4.7 million for the year ended December 31, 2005 as compared to the same period in 2004 generally as a result of a net gain recognized in the amount of approximately \$2.3 million on the early termination of leases in 2005 and the increase in interest income of \$2.9 million due to higher average cash balances held in interest bearing bank accounts during the year ended December 31, 2005 as compared to the year ended December 31, 2004. As of December 31, 2005 and 2004, we had approximately \$94.9 million and \$23.5 million in cash and cash equivalents, respectively. In addition, we had \$9.7 million in notes receivable outstanding as of December 31, 2005, \$5.4 million of which were issued subsequent to December 31, 2004. For the years ended December 31, 2005 and 2004, we earned interest income of approximately \$779,000 and \$267,000 associated with these notes receivable, which reflects an increase in interest income of approximately \$512,000 from year to year. The decrease in gain on hedges is a result of hedge ineffectiveness recorded in the years ended December 31, 2005 and 2004.

### *Other Expenses*

Other expenses increased \$82.5 million for the year ended December 31, 2005 compared to the same period in 2004 primarily because depreciation and amortization expense was higher by approximately \$51.8 million for the year ended December 31, 2005, as compared to the same period in 2004. This was primarily due to the acquisition of 158 additional properties during 2005, which had a gross book value of approximately \$1.2 billion as of December 31, 2005. The increase in interest expense of approximately \$22.7 million is attributable to higher mortgage note balances (approximately \$499.5 million) and higher financing obligation balances (approximately \$122.3 million) that were outstanding during the year ended December 31, 2005 compared to the year ended December 31, 2004. General and administrative expenses were higher during the year ended December 31, 2005 than in the year ended December 31, 2004 by approximately \$632,000 as a result of an increase in general business activities offset by a decrease in compliance costs associated with Sarbanes-Oxley. We pay our advisor an asset management fee equal to 0.75% per annum of the total undepreciated cost of properties we own in excess of \$170 million (see Note 13 Related Party Transactions to the consolidated financial statements). The increase in asset management fees during 2005 of approximately \$7.4 million was attributable to the aforementioned acquisition of 158 additional properties, all of which were subject to this 0.75% asset management fee.

**Table of Contents****Comparison of Year Ended December 31, 2004 to Year Ended December 31, 2003**

The following table illustrates the changes in rental revenues, rental expenses, net operating income, other income and other expenses for the year ended December 31, 2004 compared to the year ended December 31, 2003. A discussion of these changes follows the table (dollar amounts are in thousands).

	Year Ended December 31,		
	2004	2003	Change
<b>Rental Revenue</b>			
2004 acquisitions	\$ 20,140	\$	\$ 20,140
2003 acquisitions	14,537	2,645	11,892
Total rental revenue	34,677	2,645	32,032
<b>Rental Expenses</b>			
2004 acquisitions	4,158		4,158
2003 acquisitions	3,047	367	2,680
Total rental expenses	7,205	367	6,838
<b>Net Operating Income(1)</b>			
2004 acquisitions	15,982		15,982
2003 acquisitions	11,490	2,278	9,212
Total net operating income	27,472	2,278	25,194
<b>Other Income</b>			
Interest and other income	876	61	815
Gain on hedges	545		545
Total other income	1,421	61	1,360
<b>Other Expenses</b>			
Depreciation and amortization	19,273	1,195	18,078
Interest	5,978	385	5,593
General and administrative	2,372	412	1,960
Asset management fees, related party	1,525		1,525
Total other expenses	29,148	1,992	27,156
Net income (loss)	\$ (255)	\$ 347	\$ (602)

(1) See Note 18 Segment Information to the consolidated financial statements for further discussion of net operating income.

*Rental Revenue*

Rental revenue increased by approximately \$32.0 million for the year ended December 31, 2004 compared to the same period in 2003, primarily as a result of (i) the rental revenue generated from the 93 properties that were acquired during the year ended December 31, 2004, and (ii) rental revenue for the 13 properties that were acquired during the year ended December 31, 2003 being higher in 2004 than in 2003 as rental revenue associated with these properties during 2003 did not reflect an entire period of operations as compared to 2004 wherein these properties were operating for a full twelve months.

*Rental Expenses*

## Edgar Filing: DIVIDEND CAPITAL TRUST INC - Form 424B3

Rental expenses increased by approximately \$6.8 million for the year ended December 31, 2004 compared to the same period in 2003, primarily as a result of (i) the acquisition of 93 properties during 2004, and (ii) rental



---

## **Table of Contents**

expenses for the 13 properties acquired in 2003 being higher in 2004 than in 2003 as rental expenses associated with these properties during 2003 did not reflect an entire period of operations as compared to 2004 wherein these properties were operating for a full twelve months.

### *Other Income*

Other income increased by approximately \$1.4 million for the year ended December 31, 2004 as compared to the same period in 2003. The increase in interest income of approximately \$800,000 is due to higher average cash balances held in interest bearing bank accounts during the year ended December 31, 2004 as compared to the year ended December 31, 2003. As of December 31, 2004 and 2003, we had approximately \$23.5 million and \$4.1 million in cash and cash equivalents, respectively. In addition, we had notes receivable outstanding of \$4.2 million as of December 31, 2004. For the year ended December 31, 2004, we earned interest income of approximately \$267,000 associated with these notes receivable. The increase in gain on hedges is primarily a result of the settlement of hedges with a resulting gain of approximately \$545,000 due to hedge ineffectiveness recorded in the year ended December 31, 2004.

### *Other Expenses*

Other expenses increased \$27.2 million for the year ended December 31, 2004 compared to the same period in 2003 primarily because depreciation and amortization expense was higher by approximately \$18.1 million for the year ended December 31, 2004, as compared to the same period in 2003. This was primarily due to the acquisition of 93 additional properties during 2004, which had a gross book value of approximately \$603.4 million as of December 31, 2004. The increase in interest expense of approximately \$5.6 million is attributable to higher mortgage note balances (approximately \$102.3 million) and higher financing obligation balances (approximately \$29.7 million) that were outstanding during the year ended December 31, 2004, compared to the year ended December 31, 2003. General and administrative expenses were higher during the year ended December 31, 2004 than in the year ended December 31, 2003 by approximately \$2.0 million as a result of an increase in general business activities as well as an increase in compliance costs associated with Sarbanes-Oxley. We became obligated to pay our advisor the aforementioned 0.75% asset management fee in March 2004 (see Note 13 Related Party Transactions to the consolidated financial statements). The increase in asset management fees during 2004 was attributable to all 93 properties that were acquired during 2004 being subject to this fee.

## **Critical Accounting Policies**

### *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 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 revenue 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 discussion pertains to accounting policies management believes are most critical to the portrayal of our financial condition and results of operations which require management's most difficult, subjective or complex judgments.

### *Impairment of Long-Lived Assets*

Long-lived assets held and used are carried at cost and evaluated for impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS No. 144 ). SFAS No. 144

---

**Table of Contents**

provides that such an evaluation should be performed when events or changes in circumstances indicate such an evaluation is warranted. Examples include the point at which we deem the long-lived asset to be held for sale, downturns in the economy, etc. Impairment of long-lived assets is considered a critical accounting estimate because the evaluation of impairment and the determination of fair values involve 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 include, but are not limited to, projecting vacancy rates, rental rates, property operating expenses, capital expenditures and debt financing rates, among other things. The capitalization rate is also a significant driving factor in determining the property valuation which requires management's judgment of factors such as market knowledge, historical experience, lease terms, customer financial strength, economy, demographics, environment, property location, visibility, age, physical condition and investor return requirements, among other things. All of 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 any of these uncertain factors, either individually or taken as a whole. Should the actual results differ from management's judgment, the valuation could be negatively affected and may result in a negative impact to our consolidated financial statements.

***Valuation and Allocation of Real Estate Acquisitions***

Upon acquisition, the purchase price of a property and other costs associated with the acquisition such as the acquisition fee paid to our advisor are capitalized and allocated to land, building, land improvements, tenant improvements and other intangible assets and associated liabilities as required by SFAS No. 141. The allocation to land, building, land improvements and tenant improvements will be based on management's estimate of its fair value based on all available information. The allocation to intangible lease assets, as required by SFAS No. 141, represents the value associated with the in-place leases, including leasing commissions, legal and other related costs. Also, SFAS No. 141 requires the creation of an intangible asset or liability resulting from in-place leases being above or below the current market rental rates on the date of the acquisition. This asset or liability will be amortized over the life of the remaining in-place leases as an adjustment to revenue. Pursuant to SFAS No. 141, the difference between the fair value and the face value of debt assumed in an acquisition should be recorded as a premium or discount and amortized to interest expense over the life of the debt assumed. Valuation and allocation of real estate acquisitions is considered a critical accounting policy because the determination of the value and allocation of the cost of a real estate acquisition involves a number of management's assumptions relating to the ability to lease vacant space, market rental rates, term of new leases, property operating expenses and leasing commissions, among other things. All of the aforementioned factors will be taken as a whole by management in determining the valuation and allocation of the costs of real estate acquisitions. The valuation and allocation is sensitive to the actual results of any of these uncertain factors, either individually or taken as a whole. Should the actual results differ from management's judgment, the valuation and allocation could be negatively affected and may result in a negative impact to the consolidated financial statements.

***Consolidation***

Our consolidated financial statements include the accounts of Dividend Capital Trust and its consolidated subsidiaries and partnerships which we control either through ownership of a majority voting interest, as the primary beneficiary, or otherwise. Investments in entities in which we do not own a majority voting interest but over which we have the ability to exercise significant influence over operating and financial policies are presented under the equity method. Investments in entities in which we do not own a majority voting interest and over which we do not have the ability to exercise significant influence are carried at the lower of cost or fair value, as appropriate. Our management's judgments with respect to our level of influence or control of an entity and whether we are the primary beneficiary of a variable interest entity as defined by FIN 46(R) (discussed below) involve consideration of various factors including the form of our ownership interest, our representation on the entity's board of directors, the size of our investment (including loans) and our ability to participate in policy making decisions. Our management's ability to correctly assess its influence or control over an entity affects the presentation of these investments in our consolidated financial statements and, consequently, our financial position and specific items in our results of operations that are used by our shareholders, lenders and others in their evaluation of us.

---

## **Table of Contents**

### ***Depreciation and Useful Lives of Real Estate Assets***

We estimate the depreciable portion of our real estate assets and their related useful lives in order to record depreciation expense. Our management's ability to accurately estimate the depreciable portions of our real estate assets and their useful lives is critical to the determination of the appropriate amount of depreciation expense recorded and the carrying values of the underlying assets. Any change to the estimated depreciable lives of these assets would have an impact on the depreciation expense we recognize.

### ***New Accounting Pronouncements***

In January 2003, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)). FIN 46(R) requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46(R) requires disclosures about variable interest entities that a company is not required to consolidate, but in which it has a significant variable interest. The consolidation requirements apply to existing public entities as of March 31, 2004. We do not believe that any of our consolidated or unconsolidated joint ventures are variable interest entities under the provisions of FIN 46(R).

In December 2004, FASB issued SFAS No. 123(R), *Share-Based Payment* (SFAS No. 123(R)). This statement is a revision of FASB Statement No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. SFAS No. 123(R) is effective for public companies for the annual period beginning after December 15, 2005. The adoption of SFAS No. 123(R) requires the unamortized portion of any options issued prior to 2002 to be amortized over the remaining life of those options. We do not anticipate that the adoption of SFAS No. 123(R) will have a material impact on our financial position, results of operations or cash flows.

In March 2005, the FASB issued Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47). FIN 47 requires the recognition of a liability for the fair value of a conditional asset retirement obligation if the fair value can be reasonably estimated. Currently, we are under no legal obligation to retire any of our assets. We adopted FIN 47 during the fourth quarter of 2005 and there was no material impact on our financial position, results of operations or cash flows.

In May, 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* (SFAS No. 154), which supersedes Accounting Principles Board, or APB, Opinion No. 20, *Accounting Changes* and SFAS No. 3, *Reporting Accounting Changes in Interim Financial Statements*. This statement amends the requirements for the accounting for and reporting of changes in accounting principle. It requires the retroactive application to prior periods' financial statements of changes in accounting principles, unless it is impracticable to determine either the period specific effects or the cumulative effect of the change. SFAS No. 154 does not change the guidance for reporting the correction of an error in previously issued financial statements or the change in an accounting estimate. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. We adopted the requirements of SFAS No. 154 in the fourth quarter of 2005 and there was no material impact on our financial position, results of operations or cash flows.

In June 2005, the Emerging Issues Task Force, or EITF, issued EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. Under this consensus, a sole general partner is presumed to control a limited partnership (or similar entity) and should consolidate that entity unless the limited partners possess

**Table of Contents**

kick-out rights or other substantive participating rights as described in EITF Issue No. 96-16, *Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights*. As of June 29, 2005, this consensus was effective immediately for all new or modified agreements, and effective beginning in the first reporting period that ends after December 15, 2005 for all existing agreements. We adopted the consolidation requirements of this consensus in the third quarter of 2005 and such adoption did not have a material impact on our financial position, results of operations or cash flows.

In June 2005, the EITF issued EITF Issue No. 05-6, *Determining the Amortization Period for Leasehold Improvements*. This consensus requires that leasehold improvements acquired in a business combination, or purchased subsequent to the inception of a lease, be amortized over the lesser of the useful life of the assets or a term that includes renewals that are reasonably assured at the date of the business combination or purchase. This consensus was effective for all reporting periods beginning after June 29, 2005. We adopted EITF Issue No. 05-6 during the second quarter of 2005 and such adoption did not have a material impact on our financial position, results of operations or cash flows.

**Table of Contents**

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

Market risk is the risk of loss from adverse changes in market prices such as rental rates and interest 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 shareholders and unitholders, and other cash requirements. The majority of our outstanding debt has fixed interest rates, which minimizes the risk of fluctuating interest rates.

Our exposure to market risk includes interest rate fluctuations in connection with our credit facilities and other variable rate borrowings and forecasted fixed rate debt issuances. 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 forecasted issuances of fixed rate debt, we primarily use treasury locks as part of our cash flow hedging strategy. A treasury lock is designed to mitigate the risk of future interest rate fluctuations by providing a future fixed interest rate for a limited pre-determined period of time. During 2005, such derivatives were used to hedge the variable cash flows associated with \$150 million of forecasted issuances of debt. 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.

Our variable rate debt is subject to risk based upon prevailing market interest rates. If the prevailing market interest rates relevant to our variable rate debt were 10% higher during the period, our interest expense for the years ended December 31, 2005 and 2004 would have increased by \$111,000 and \$92,000, respectively.

As of December 31, 2005, our debt had a carrying value of approximately \$642.2 million and the estimated fair value of such debt was approximately \$627.3 million based on our estimate of current market interest rates.

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**DIVIDEND CAPITAL TRUST INC. AND SUBSIDIARIES**

**INDEX TO FINANCIAL STATEMENTS**

<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated Balance Sheets as of December 31, 2005 and December 31, 2004</u>	F-2
<u>Consolidated Statements of Operations for the Years Ended December 31, 2005, 2004 and 2003</u>	F-3
<u>Consolidated Statements of Shareholders' Equity (Deficit) and Other Comprehensive Income (Loss) for the Years Ended December 31, 2005, 2004 and 2003</u>	F-4
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2005, 2004 and 2003</u>	F-5
<u>Notes to Consolidated Financial Statements</u>	F-6
<u>Report of Independent Registered Public Accounting Firm</u>	F-38
<u>Schedule III-Real Estate and Accumulated Depreciation</u>	F-39

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders

Dividend Capital Trust Inc.:

We have audited the accompanying consolidated balance sheets of Dividend Capital Trust Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity (deficit) and other comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dividend Capital Trust Inc. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Denver, Colorado

March 7, 2006

F-1

**Table of Contents****Dividend Capital Trust Inc. and Subsidiaries****Consolidated Balance Sheets****(In thousands, except share information)**

	<b>As of December 31,</b>	
	<b>2005</b>	<b>2004</b>
<b>ASSETS</b>		
Land	\$ 327,428	\$ 120,055
Buildings and improvements	1,499,414	572,089
Intangible lease assets	155,276	61,725
Construction in progress	12,807	195
<b>Total Investment in Properties</b>	<b>1,994,925</b>	<b>754,064</b>
Less accumulated depreciation and amortization	(96,604)	(21,862)
<b>Net Investment in Properties</b>	<b>1,898,321</b>	<b>732,202</b>
Investments in and advances to unconsolidated investees	6,090	
<b>Net Investment in Real Estate</b>	<b>1,904,411</b>	<b>732,202</b>
Cash and cash equivalents	94,918	23,520
Restricted cash	5,027	5,414
Notes receivable	9,661	4,239
Deferred loan costs, net	6,498	4,355
Deferred loan costs financing obligation, net	12,270	2,801
Deferred acquisition costs and deposits	2,855	5,407
Straight line rent and other receivables	18,347	5,704
Other assets, net	3,708	1,166
<b>Total Assets</b>	<b>\$ 2,057,695</b>	<b>\$ 784,808</b>
<b>LIABILITIES &amp; SHAREHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 26,139	\$ 6,301
Distributions payable	19,787	9,737
Tenant prepaids and security deposits	9,321	4,039
Other liabilities	6,769	2,843
Intangible lease liability, net	10,320	5,519
Line of credit	16	4
Mortgage notes	642,242	142,755
Financing obligations	154,713	32,395
<b>Total Liabilities</b>	<b>869,307</b>	<b>203,593</b>
Minority Interest	55,577	1
<b>Shareholders Equity:</b>		
Preferred shares, 50,000,000 shares authorized, none outstanding		
Shares-in-trust, 100,000,000 shares authorized, none outstanding		
Common shares \$0.01 par value, 350,000,000 shares authorized, 133,206,784 and 67,719,883 shares issued and outstanding as of December 31, 2005 and 2004, respectively	1,332	677