PROASSURANCE CORP
Form 10-K
February 20, 2014
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United States
Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K
(Mark One)
ý Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required]
for the fiscal year ended December 31, 2013,
or
¨ Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required]
for the transition period from to .
Commission file number: 001-16533
ProAssurance Corporation
(Exact name of registrant as specified in its charter)

Delaware (State of incorporation or organization)	63-1261433 (I.R.S. Employer Identification No.)
100 Brookwood Place, Birmingham, AL	35209
(Address of principal executive offices)	(Zip Code)

(205) 877-4400
(Registrant’s Telephone Number, Including Area Code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None.
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to 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, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

The aggregate market value of voting stock held by non-affiliates of the registrant at June 30, 2013 was $3,178,444,502.

As of February 12, 2014, the registrant had outstanding approximately 60,486,816 shares of its common stock.

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Documents incorporated by reference in this Form 10-K

(i) The definitive proxy statement for the 2014 Annual Meeting of the Stockholders of ProAssurance Corporation (File No. 001-16533) is incorporated by reference into Part III of this report.

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General Information

Throughout this report, references to ProAssurance, “we”, “us”, “our” or "the Company" refer to ProAssurance Corporation and its consolidated subsidiaries. Also, as ProAssurance is an insurance holding company and certain terms and phrases common to the insurance industry are used in this report that carry special and specific meanings, we encourage you to read the Glossary of Selected Insurance and Related Financial Terms posted on the Supplemental Information page of our website (www.proassurance.com/InvestorRelations/supplemental.aspx).

Caution Regarding Forward-Looking Statements

Any statements in this Form 10K that are not historical facts are specifically identified as forward-looking statements. These statements are based upon our estimates and anticipation of future events and are subject to certain risks and uncertainties that could cause actual results to vary materially from the expected results described in the forward-looking statements. Forward-looking statements are identified by words such as, but not limited to, “anticipate”, “believe”, “estimate”, “expect”, “hope”, “hopeful”, “intend”, “likely”, “may”, “optimistic”, “possible”, “potential”, “preliminar “should”, “will” and other analogous expressions. There are numerous factors that could cause our actual results to differ materially from those in the forward-looking statements. Thus, sentences and phrases that we use to convey our view of future events and trends are expressly designated as forward-looking statements as are sections of this Form 10K that are identified as giving our outlook on future business.

Forward-looking statements relating to our business include among other things: statements concerning liquidity and capital requirements, investment valuation and performance, return on equity, financial ratios, net income, premiums, losses and loss reserves, premium rates and retention of current business, competition and market conditions, the expansion of product lines, the development or acquisition of business in new geographical areas, the availability of acceptable reinsurance, actions by regulators and rating agencies, court actions, legislative actions, payment or performance of obligations under indebtedness, payment of dividends, and other matters.

These forward-looking statements are subject to significant risks, assumptions and uncertainties, including, among other things, the following factors that could affect the actual outcome of future events:

- changes in general economic conditions, including the impact of inflation or deflation and unemployment;
- our ability to maintain our dividend payments;
- regulatory, legislative and judicial actions or decisions that could affect our business plans or operations;
- the enactment or repeal of tort reforms;
- formation or dissolution of state-sponsored healthcare professional liability insurance entities that could remove or add sizable groups of physicians from or to the private insurance market;
- changes in the interest rate environment;
- changes in U.S. laws or government regulations regarding financial markets or market activity that may affect the U.S. economy and our business;
- changes in the ability of the U.S. government to meet its obligations that may affect the U.S. economy and our business;
- performance of financial markets affecting the fair value of our investments or making it difficult to determine the value of our investments;
- changes in requirements or accounting policies and practices that may be adopted by our regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission (SEC), the Public Company Accounting Oversight Board, or the New York Stock Exchange (NYSE) and that may affect our business;
- changes in laws or government regulations affecting the financial services industry, the property and casualty insurance industry or the particular insurance lines underwritten by our subsidiaries;
- the effects of changes in the healthcare delivery system, including but not limited to the Patient Protection and Affordable Care Act (the Healthcare Reform Act);
- consolidation of healthcare providers resulting in entities that are more likely to self-insure a substantial portion of their healthcare professional liability risk;
- uncertainties inherent in the estimate of loss and loss adjustment expense reserves and reinsurance;
- changes in the availability, cost, quality or collectability of insurance/reinsurance;

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- the results of litigation, including pre- or post-trial motions, trials and/or appeals we undertake;
- allegation of bad faith which may arise from our handling of any particular claim, including failure to settle;
- loss or consolidation of independent agents, agencies, brokers or brokerage firms;
- changes in our organization, compensation and benefit plans;
- changes in the business or competitive environment may limit the effectiveness of our business strategy and impact our revenues;
- our ability to retain and recruit senior management;
- the availability, integrity and security of our technology infrastructure;
- the impact of a catastrophic event, as it relates to both our operations and our insured risks;
- the impact of acts of terrorism and acts of war;
- the effects of terrorism related insurance legislation and laws;
- assessments from guaranty funds;
- our ability to achieve continued growth through expansion into other states or through acquisitions or business combinations;
- changes to the ratings assigned by rating agencies to our insurance subsidiaries, individually or as a group;
- provisions in our charter documents, Delaware law and state insurance law may impede attempts to replace or remove management or may impede a takeover;
- state insurance restrictions may prohibit assets held by our insurance subsidiaries, including cash and investment securities, from being used for general corporate purposes;
- taxing authorities can take exception to our tax positions and cause us to incur significant amounts of legal and accounting costs and, if our defense is not successful, additional tax costs, including interest and penalties; and
- expected benefits from completed and proposed acquisitions may not be achieved or may be delayed longer than expected due to business disruption; loss of customers, employees and key agents; increased operating costs or inability to achieve cost savings; and assumption of greater than expected liabilities, among other reasons.

Additional risks that could adversely affect the integration of Medmarc Mutual Insurance Company, now Medmarc Casualty Insurance Company (Medmarc), and Eastern Insurance Holdings, Inc. (Eastern) into ProAssurance, include but are not limited to the following:

- the outcome of claims that may be asserted by either the policyholders or shareholders of any of these acquired entities relating to payments or other issues associated with the acquisition of the entities and subsequent mergers into ProAssurance;
- the operations of ProAssurance and Medmarc or ProAssurance and Eastern may not be integrated successfully, or such integration may take longer to accomplish than expected;
- cost savings from the transactions may not be fully realized or may take longer to realize than expected; and
- operating costs, customer loss and business disruption following one or both transactions, including adverse effects on relationships with employees, may be greater than expected.

Additional risks that could arise from our membership in the Lloyd's of London market (Lloyd's) and our participation in Lloyd's Syndicate 1729 (Syndicate 1729) include but are not limited to the following:

- members of Lloyd's are subject to levies by the Council of Lloyd's based on a percentage of the member's underwriting capacity, currently a maximum of 3%;
- syndicate operating results can be affected by decisions made by the Council of Lloyd's over which the management of Syndicate 1729 has little ability to control, such as a decision to not approve our annual business plan, or a decision to increase the capital required to continued operations, and by our obligation to pay levies to Lloyd's;
- Lloyd's insurance and reinsurance relationships and distributions channels could be disrupted or Lloyd's trading licenses could be revoked making it more difficult for Syndicate 1729 to distribute and market its products; and
- rating agencies could downgrade their ratings of Lloyd's as a whole.

Our results may differ materially from those we expect and discuss in any forward-looking statements. The principal risk factors that may cause these differences are described in “Item 1A, Risk Factors” in this report. We caution readers not to place

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undue reliance on any such forward-looking statements, which are based upon conditions existing only as of the date made, and advise readers that these factors could affect our financial performance and could cause actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. Except as required by law or regulations, we do not undertake and specifically decline any obligation to publicly release the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

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PART I

ITEM 1. BUSINESS

Overview

ProAssurance Corporation is a holding company for property and casualty insurance companies. For the year ended December 31, 2013, our net premiums written totaled $525.2 million, and at December 31, 2013 we had total assets of $5.2 billion and $2.4 billion of shareholders' equity. We provide professional liability insurance for healthcare professionals and facilities, professional liability insurance for attorneys, liability insurance for medical technology and life sciences risks, and, effective January 1, 2014, workers' compensation insurance. During 2013, through a wholly owned subsidiary, we became a corporate member of Lloyd's of London and provided a majority of the capital for Syndicate 1729. Syndicate 1729 began writing a range of property and casualty insurance and reinsurance lines effective January 1, 2014.

Our executive offices are located at 100 Brookwood Place, Birmingham, Alabama 35209 and our telephone number is (205) 877-4400. Our stock trades on the NYSE under the symbol "PRA." Our website is www.ProAssurance.com and we maintain a dedicated Investor Relations section on that website (www.ProAssurance.com/InvestorRelations) to provide specialized resources for investors and others seeking to learn more about us.

As part of our disclosure through the Investor Relations section of our website, we publish our annual report on Form 10K, our quarterly reports on Form 10Q, and our current reports on Form 8K and all other public SEC filings as soon as reasonably practical after filing with the SEC on its EDGAR system. These SEC filings can be found on our website at www.proassurance.com/InvestorRelations/reports_filings.aspx. This section also includes information regarding stock trading by corporate insiders by providing access to SEC Forms 3, 4 and 5 when they are filed with the SEC. In addition to federal filings on our website, we make available other documents that provide important additional information about our financial condition and operations. Documents available on our website include the financial statements we file with state regulators (compiled under Statutory Accounting Principles as required by regulation), news releases that we issue, a listing of our investment holdings, and certain investor presentations. The Governance section of our website provides copies of the charters for our governing committees and many of our governing policies. Printed copies of these documents may be obtained from Frank O'Neil, Senior Vice President, ProAssurance Corporation, either by mail at P.O. Box 590009, Birmingham, Alabama 35259-0009, or by telephone at (205) 877-4400 or (800) 282-6242.

Our History

We were incorporated in Delaware in 2001 as the successor to Medical Assurance, Inc. in conjunction with its merger with Professionals Group, Inc. ProAssurance has a history of growth through acquisitions. Significant acquisitions completed in the most recent five years include:

- Podiatry Insurance Company of America and subsidiaries, (PICA), acquired April 1, 2009,
- American Physicians Service Group, Inc. and subsidiaries, (APS), acquired November 30, 2010,
- Independent Nevada Doctors Insurance Exchange, (IND), acquired November 30, 2012,
- Medmarc Mutual Insurance Company and subsidiaries, (Medmarc), acquired January 1, 2013, and
- Eastern Insurance Holdings, Inc., (Eastern), which was completed January 1, 2014.

Our Strategy

Our business objectives are to generate attractive returns on equity and book value per share growth for our shareholders. We believe we achieve these objectives by executing the following strategies:

- Pursue profitable underwriting opportunities. We pursue a strategy that emphasizes profitability, not market share. Key elements of this strategy are prudent risk selection, appropriate pricing and adjusting our business mix as appropriate to effectively utilize capital and achieve market synergies. We seek to help customers confront uncertainty through innovative loss transfer and loss mitigation solutions for liability risks, with an emphasis on healthcare. Our healthcare focus considers the risk management needs of a broad spectrum of the healthcare provider market. Often, we utilize mergers or acquisitions to expand the products we offer or the types of customers we serve.
- Exercise underwriting and risk management discipline. We believe we exercise underwriting and risk management discipline by adhering to underwriting guidelines across our business lines and fostering a culture that focuses on

enterprise risk management and strong internal controls.

- Assist insureds in reducing risk. We offer training to our insureds to assist them in the use of risk reduction tools and techniques.

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- Manage claims effectively. Our experienced claims teams have industry and insurance expertise that, with our extensive local knowledge, allows us to resolve claims in the most effective manner possible, considering the circumstances of each claim. When practical, we utilize formalized claims management processes and protocols as a means of reducing claim costs.
- Provide superior customer service. Our mission statement, We Exist to Protect Others, goes hand-in-hand with our corporate motto, "Treated Fairly." Both statements speak to our desire to be a strong and trusted partner that helps customers confront uncertainty through innovative loss transfer and loss mitigation solutions for liability risks, with an emphasis on healthcare. Our employees are committed to core values of integrity, respect, involvement of our insureds, collaboration, communication and enthusiasm every day.
- Maintain a conservative investment strategy. We believe that we follow a conservative investment strategy designed to emphasize the preservation of our capital and provide adequate liquidity for the prompt payment of claims. Our investment portfolio consists primarily of investment-grade, fixed-maturity securities of short-to medium-term duration.
- Maintain financial stability. We are committed to maintaining claims paying ratings of "A" or better.

Organization and Segment Information

We operate through multiple insurance organizations with four areas of focus: professional liability insurance, medical technology and life sciences products liability insurance, and beginning January 1, 2014, workers' compensation insurance and international property and casualty insurance and reinsurance. We operated as a single segment in 2013, 2012 and 2011. In 2014 we expect to report our results in four segments: specialty property and casualty, workers' compensation, Lloyd's syndicate and corporate. Our corporate segment includes our investing operations managed at the corporate level, non-premium revenues generated outside of our insurance entities, and corporate expenses.

Gross Premiums Written

Gross premiums written for the years ending December 31, 2013, 2012 and 2011 is provided below.

($ in thousands)	Year Ended December 31								
	2013			2012			2011		
Gross Premiums Written									
Professional liability:									
Physicians (1)	$414,167	73	%	$416,510	78	%	$451,181	80	%
Other healthcare professionals and facilities	69,327	12	%	71,751	13	%	73,729	13	%
Legal professionals	27,060	5	%	17,146	3	%	16,474	3	%
All other (2)	22,803	4	%	31,024	6	%	24,511	4	%
Medical technology and life sciences products liability	34,190	6	%	—	—	%	—	—	%
Total	$567,547	100	%	$536,431	100	%	$565,895	100	%

(1) Primarily comprised of one-year term policies, but includes premium related to policies with a two-year term of $25.6 million in 2013, $13.1 million in 2012 and $22.3 million in 2011.

(2) Includes tail coverage premiums of $20.9 million in 2013, $29.4 million in 2012 and $20.9 million in 2011.

Prior to acquisition of Medmarc on January 1, 2013 we did not have any medical and life sciences products technology premium. As previously discussed, the operating results of our workers' compensation segment will not be included in our consolidated results until 2014. Additional detailed information regarding premium by individual product type is provided in Item 7, Management's Discussion and Analysis, Results of Operations, under the caption "Premiums Written".

Prior to January 1, 2014 all of our premium revenues were written within the United States. As of January 1, 2014 we are writing premium outside of the United States due to our participation in Syndicate 1729, see segment discussion below.

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Specialty Property and Casualty Segment

Professional Liability Insurance

Our professional liability business is focused on providing professional liability insurance to healthcare providers and institutions and to attorneys and their firms. Physicians are currently our core customer group, but we target the full spectrum of the healthcare professional liability market. For our legal professional liability product, we target smaller law practices. While most of our business is written in the standard market, we also offer professional liability insurance on an excess and surplus lines basis. We are licensed to do business in every state. For the years ended December 31, 2013, 2012 and 2011 physician coverages represented 73%, 78% and 80%, respectively, of the consolidated gross premiums written.

We utilize independent agencies and brokers as well as an internal sales force to write our healthcare professional liability (HCPL) business. Our legal professional liability business is written almost exclusively through agents and brokers. For the year ended December 31, 2013 approximately 66% of our professional liability gross premiums written were produced through independent insurance agencies or brokers. The agencies and brokerages we use typically sell through professional liability insurance specialists who are able to convey the factors that differentiate our professional liability insurance products. No single agent, broker, brokerage or agency accounts for more than 10% of our total professional liability premiums.

In marketing our professional liability products we emphasize that we offer:

- financial strength,
- liability coverages tailored to meet evolving needs of our insureds,
- excellent claims and underwriting services,
- risk management consultation, loss prevention seminars and other educational programs,
- regular newsletters discussing matters of interest to our insureds, including updates on legislative developments,
- support of legislation that will have a positive effect on healthcare and legal liability issues, and
- involvement in and support for local professional societies and related organizations.

These communications and services demonstrate our understanding of the professional liability insurance needs of our insureds, promote a commonality of interest between us and our insureds and provide opportunities for targeted interactions with potential insureds. We maintain regional underwriting and claims processing centers which permit us to consistently provide a high level of customer service to both small and large accounts.

We maintain internal claims personnel that investigate and monitor the processing of our professional liability claims, and engage experienced, independent litigation attorneys in each venue to assist with the claims process as we believe this practice aids us in providing defense that is aggressive, effective and cost-efficient. We evaluate the merit of each claim and determine the appropriate strategy for resolution of the claim, either seeking a reasonable good faith settlement appropriate for the circumstance of the claim or aggressively defending the claim. As part of the evaluation and preparation process for healthcare professional liability claims, we meet regularly with medical advisory committees in our key markets to examine claims, attempt to identify potentially troubling practice patterns and make recommendations to our staff.

Medical Technology and Life Sciences Insurance

Our Medical Technology and Life Sciences business, acquired January 1, 2013 through the acquisition of Medmarc, offers products liability insurance for medical technology and life sciences companies that manufacture or distribute products that are almost all regulated by the United States Food and Drug Administration. Products insured include imaging and non-invasive diagnostic medical devices, orthopedic implants, pharmaceuticals, clinical lab instruments, medical instruments, dental products, and animal pharmaceuticals and medical devices. We also provide coverage for clinical trials and contract manufacturers.

In underwriting our products liability business, we consider the type of risk, the amount of coverage being sought, the expertise and experience of the applicant, and the expected volume of product sales in making our underwriting decision. Close to 100% of our products liability business is written through independent brokers with our top ten producers generating approximately $16 million of our 2013 gross premiums written. We do not appoint agents for our products liability business.

Our products liability claims are centrally processed in Chantilly, Virginia. We strongly defend these claims, with a negotiated settlement being the most frequent means of resolution.

Competition

For our HCPL business, we compete in a fragmented market comprised of many insurers, ranging from single state mono-line insurers to large national carriers offering multiple product lines. According to 2012 industry gross premiums written data, the top five HCPL writers hold a combined market share of approximately 32% and we are the fourth largest HCPL writer in the United States. Competitive distinctions vary from state-to-state and within areas of healthcare delivery (e.g., individual physicians vs. hospitals and facilities) and include pricing, size, name recognition, service quality, market commitment, market

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conditions, breadth and flexibility of coverage, method of sale, financial stability, ratings assigned by rating agencies and regulatory conditions. Our competitors range from large national insurers whose financial strength and resources may be greater than ours to smaller insurance entities that concentrate on a single state and as a result have an extensive knowledge of the local markets.

We are widely recognized in our HCPL markets for our heritage as a policyholder founded company with a long-term focus on the industry and for strong and effective claims management. Historically, we have principally insured physicians in a solo or small group practice, but in recent years we have increased our focus on offering unique, joint or cooperative insurance programs that are attractive to hospitals or other large groups. Often, these large groups and hospitals choose to manage their HCPL risks through alternative insurance mechanisms such as risk retention groups or self-insurance entities, and we offer insurance programs designed to compete with these mechanisms. In recent years there has been a substantial increase in the number of physicians employed full time by hospitals or large group practices, which industry-wide has reduced the number of physicians insured on an individual or small-group basis. Additionally, many believe that healthcare services in the United States will increasingly be provided by professionals other than physicians and outside of hospital settings. We have addressed these issues by refining our existing hospital/physician insurance programs, developing new insurance mechanisms to meet the needs of hospitals and large practice groups, expanding our coverage of healthcare providers other than physician or hospitals, and by enhancing our customer service capabilities, particularly with regard to larger accounts. We believe that our size, reputation for effective claims management, unique customer service focus, multi-state presence, and experience with a broad spectrum of healthcare professionals will provide us with competitive advantages as the HCPL marketplace changes.

We recognize the importance of providing our products at competitive rates. We base our rates on current loss projections, and targeted new business and renewal retention programs where we consider appropriate based on the risks assumed.

Competition in the legal professional liability market is also varied, with coverage offered by both large national property and casualty providers and smaller specialty providers, including mutual companies affiliated with one or more state legal professional association.

Competition in the products liability market is among national property and casualty insurers, some of which are significantly larger than ProAssurance.

Workers' Compensation Segment

Effective January 1, 2014 ProAssurance acquired Eastern, which offers workers' compensation products in the Mid-Atlantic (primarily in Pennsylvania), Southeast, and Midwest regions of the continental United States. The operating results of Eastern will be included in our consolidated results beginning January 1, 2014.

Our workers' compensation business consists of two major business activities:

- Workers' compensation insurance coverages provided to employers, generally those with 1,000 employees or less. Types of policies offered include guaranteed cost policies, policyholder dividend policies, retrospectively-rated policies, deductible policies, and alternative market products.
- Alternative market workers' compensation solutions provided to individual companies, groups and associations (referred to hereafter as “cell participants”) whereby policies written are 100% reinsured by related segregated portfolio cells of our subsidiary domiciled in the Cayman Islands. The pool of assets and associated liabilities of each segregated portfolio cell are solely for the benefit of the cell participants, and the pool of assets of one segregated portfolio cell are statutorily protected from the creditors of the others. The underwriting results and investment income of the segregated portfolio cells are shared with the cell participants in accordance with the terms of the cell agreements. We principally receive fee revenue from the cells, and for cells in which we are a cell participant, a percentage of the profit or loss of the cell.

Both groups of workers' compensation products are distributed through a group of appointed independent agents.

We utilize an individual account underwriting strategy for our workers' compensation business that is focused on selecting quality accounts. The goal of our workers’ compensation underwriters is to select a diverse book of business with respect to risk classification, hazard level and geographic location. We target accounts with strong return to work and safety programs in low to middle hazard levels such as clerical office, light manufacturing, healthcare, auto

dealers and service industries and maintain a strong risk management unit in order to better serve our customers' needs.

We actively seek to reduce our workers' compensation loss costs by placing an emphasis on early intervention and aggressive disability management, utilizing in-house and third-party specialists for case management, including medical cost management. Strategic vendor relationships have been established to reduce claim costs associated with legal representation and medical costs such as physician and hospital charges, physical therapy services and prescription drugs.

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Competition

As with our professional and product liability business, there is substantial competition for our workers' compensation business. Workers’ compensation insurance is subject to significant price competition. In addition to price, competition in the workers’ compensation insurance line of business is based on quality of the products, quality and delivery of service, financial strength, ratings, distribution systems and technical expertise. Competitors include both regional specialized providers and large national insurance entities offering a full spectrum of business liability products.

Lloyd's Syndicate Segment

Late in 2013, we completed the process of becoming a corporate member of Lloyd's of London, an internationally recognized specialist insurance market. We are the majority (58%) capital provider to Syndicate 1729, which began writing business as of January 1, 2014. The remaining capital for Syndicate 1729 is provided by unrelated third parties, including private names and other corporate members. We have committed £47.3 million ($78.3 million*) of capital for the first year of Syndicate 1729 operations and have a total capital commitment through 2019 of up to $200 million. Syndicate 1729 will cover a range of property and casualty insurance and reinsurance lines, and has a maximum underwriting capacity of £75 million ($124.2 million*) for the 2014 underwriting year, of which £43.2 million ($71.5 million*) is our allocated underwriting capacity as a corporate member.

Syndicate 1729 faces significant competition from other Lloyd's syndicates, U.S. insurers operating internationally, and international and domestic insurers offering similar coverages. Competition is based on price, types and quality of product offered, and service quality. Syndicate 1729 is led by an experienced Lloyd's insurance and reinsurance underwriter, which we believe provides a competitive advantage.

*$ amounts estimated using the GBP exchange rate as of December 31, 2013.

Corporate Segment

We manage our investments at the corporate level and we apply a consistent management strategy to the entire portfolio. Accordingly, we report our investment results and net realized investment gains and losses within our corporate segment. Our corporate segment also includes certain revenues and expenses which management does not consider in evaluating the financial results of our other operating segments, interest expense and taxes.

Our overall investment strategy is to focus on maximizing current income from our investment portfolio while maintaining safety, liquidity, duration targets and portfolio diversification. The portfolio is generally managed by professional third party asset managers whose results we monitor and evaluate. The asset managers typically have the authority to make investment decisions within the asset classes they are responsible for managing, subject to our investment policy and oversight, including a requirement that securities in a loss position cannot be sold without specific authorization from us. See Note 4 of the Notes to Consolidated Financial Statements for more information on our investments.

Rating Agencies

Our claims paying ability is regularly evaluated and rated by three major rating agencies, A. M. Best, Fitch and Moody’s. In developing their claims paying ratings, these agencies make an independent evaluation of an insurer’s ability to meet its obligations to policyholders. See "Risk Factors" for a table presenting the claims paying ratings of our principal insurance operations.

Four rating agencies evaluate and rate our ability to service current debt and potential debt. These financial strength ratings reflect each agency’s independent evaluation of our ability to meet our obligation to holders of our debt, if any. While financial strength ratings may be of greater interest to investors than our claims paying ratings, these ratings are not evaluations of our equity securities nor a recommendation to buy, hold or sell our equity securities.

Insurance Regulatory Matters

We are subject to regulation under the insurance and insurance holding company statutes of various jurisdictions, including the domiciliary states of our active insurance subsidiaries and other states in which our insurance subsidiaries do business. Our primary active insurance subsidiaries are domiciled in the United States. Our states of domicile include Alabama, Illinois, Michigan, Pennsylvania, and Vermont. We have reinsurance operations based in the Cayman Islands and, through our Lloyd's Syndicate segment, we have insurance operations based in the United Kingdom.

United States

Our insurance subsidiaries are required to file detailed annual statements with the state insurance regulators in each of the states in which they do business. The laws of the various states establish agencies with broad authority to regulate, among other

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things, licenses to transact business, premium rates for certain types of coverage, trade practices, agent licensing, policy forms, underwriting and claims practices, reserve adequacy, transactions with affiliates, and insurer solvency. Such regulations may hamper our ability to meet operating or profitability goals, including preventing us from establishing premium rates for some classes of insureds that adequately reflects the level of risk assumed for those classes. Many states also regulate investment activities on the basis of quality, distribution and other quantitative criteria. States have also enacted legislation regulating insurance holding company systems, including acquisitions, the payment of dividends, the terms of affiliate transactions, and other related matters.

Applicable state insurance laws, rather than federal bankruptcy laws, apply to the liquidation or reorganization of insurance companies.

Insurance companies are also subject to state and federal legislative and regulatory measures and judicial decisions. These could include new or updated definitions of risk exposure and limitations on business practices.

Insurance Regulation Concerning Change or Acquisition of Control

The insurance regulatory codes in each of the domiciliary states of our operating subsidiaries contain provisions (subject to certain variations) to the effect that the acquisition of “control” of a domestic insurer or of any person that directly or indirectly controls a domestic insurer cannot be consummated without the prior approval of the domiciliary insurance regulator. In general, a presumption of “control” arises from the direct or indirect ownership, control or possession with the power to vote or possession of proxies with respect to 10% (5% in Alabama) or more of the voting securities of a domestic insurer or of a person that controls a domestic insurer. Because of these regulatory requirements, any party seeking to acquire control of ProAssurance or any other domestic insurance company, whether directly or indirectly, would usually be required to obtain such approvals.

In addition, certain state insurance laws contain provisions that require pre-acquisition notification to state agencies of a change in control of a non-domestic insurance company admitted in that state. While such pre-acquisition notification statutes do not authorize the state agency to disapprove the change of control, such statutes do authorize certain remedies, including the issuance of a cease and desist order with respect to the non-domestic admitted insurers doing business in the state if certain conditions exist, such as undue market concentration.

Statutory Accounting and Reporting

Insurance companies are required to file detailed quarterly and annual reports with the state insurance regulators in each of the states in which they do business, and their business and accounts are subject to examination by such regulators at any time. The financial information in these reports is prepared in accordance with Statutory Accounting Principles (SAP). Insurance regulators periodically examine each insurer’s adherence to SAP, financial condition, and compliance with insurance department rules and regulations.

In late 2010, the National Association of Insurance Commissioners (the NAIC) adopted the Model Insurance and Holding Company System Regulatory Act and Regulation (“Model Law”). The Model Law, as compared to previous NAIC guidance, increases regulatory oversight of and reporting by insurance holding companies, including reporting related to non-insurance entities, and requires reporting of risks affecting the holding company group. Additionally, in 2012 the NAIC adopted the Risk Management and Own Risk and Solvency Assessment Model Act (ORSA), which requires insurers to maintain a framework for identifying, assessing, monitoring, managing and reporting on the “material and relevant risks” associated with the insurer's (or insurance group's) current and future business plans. ORSA will also require insurers to file an internal assessment of solvency with insurance regulators annually beginning in 2015. Although no specific capital adequacy standard is currently articulated in ORSA, it is possible that such standard will be developed over time. The Model Law and ORSA will be binding only if adopted by state legislatures and/or state insurance regulatory authorities and actual regulations adopted by any state may differ from the Model Law. None of the states in which we are domiciled have adopted the Model Law or ORSA.

Regulation of Dividends and Other Payments from Our Operating Subsidiaries

Our operating subsidiaries are subject to various state statutory and regulatory restrictions that limit the amount of dividends or distributions an insurance company may pay to its shareholders, including our insurance holding company, without prior regulatory approval. Generally, dividends may be paid only out of unassigned earned surplus. In every case, surplus subsequent to the payment of any dividends must be reasonable in relation to an insurance company’s outstanding liabilities and must be adequate to meet its financial needs.

State insurance holding company regulations generally require domestic insurers to obtain prior approval of extraordinary dividends. Insurance holding company regulations that govern our principal operating subsidiaries deem a dividend as extraordinary if the combined dividends and distributions to the parent holding company in any twelve-month period exceed prescribed thresholds. Such thresholds are statutorily prescribed by the state of domicile and currently are based on either net

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income for the prior fiscal year (reduced by realized capital gains in certain domiciliary states) or a percentage of unassigned surplus at the end of the prior fiscal year, depending upon the wording of the statute.

If insurance regulators determine that payment of a dividend or any other payments within a holding company group, (such as payments under a tax-sharing agreement or payments for employee or other services) would, because of the financial condition of the paying insurance company or otherwise, be a detriment to such insurance company's policyholders, the regulators may prohibit such payments that would otherwise be permitted.

Risk-Based Capital

In order to enhance the regulation of insurer solvency, the NAIC specifies risk-based capital requirements for property and casualty insurance companies. At December 31, 2013, all of ProAssurance's insurance subsidiaries substantially exceeded the minimum required risk-based capital levels.

Investment Regulation

Our operating subsidiaries are subject to state laws and regulations that require diversification of investment portfolios and that limit the amount of investments in certain investment categories. Failure to comply with these laws and regulations may cause non-conforming investments to be treated as non-admitted assets for purposes of measuring statutory surplus and, in some instances, would require divestiture of investments. We monitor the practices used by our operating subsidiaries for compliance with applicable state investment regulations and take corrective measures when deficiencies are identified.

Guaranty Funds

Admitted insurance companies are required to be members of guaranty associations which administer state guaranty funds. To fund the payment of claims (up to prescribed limits) against insurance companies that become insolvent, these associations levy assessments on all member insurers in a particular state on the basis of the proportionate share of the premiums written by member insurers in the covered lines of business in that state. Maximum assessments permitted by law in any one year generally vary between 1% and 2% of annual premiums written by a member in that state, although state regulations may permit larger assessments if insolvency losses reach specified levels. Some states permit member insurers to recover assessments paid through surcharges on policyholders or through full or partial premium tax offsets, while other states permit recovery of assessments through the rate filing process. In recent years, participation in guaranty funds has not had a material effect on our results of operations.

Shared Markets

State insurance regulations may force us to participate in mandatory property and casualty shared market mechanisms or pooling arrangements that provide certain insurance coverage to individuals or other entities that are otherwise unable to purchase such coverage in the commercial insurance marketplace. Our operating subsidiaries' participation in such shared markets or pooling mechanisms is not material to our business at this time.

Changes in Legislation and Regulation

Tort reforms generally restrict the ability of a plaintiff to recover damages by, among other limitations, eliminating certain claims that may be heard in a court, limiting the amount or types of damages, changing statutes of limitation or the period of time to make a claim, and limiting venue or court selection. A number of states in which we do business, notably Florida, Georgia, Illinois, Missouri, Ohio, Texas, and West Virginia, enacted tort reform legislation in the previous decade as a response to a rapid deterioration in loss trends. These reforms are generally thought to have contributed to the improvement in the overall loss trends in those states, although loss trends have also been favorable in states that did not pass any type of tort reform. In states where these reforms are perceived to have improved the legal climate for liability defendants, we have experienced an increase in competition.

The Missouri tort reform statutes were overturned in 2012, the Illinois and Georgia statutes were overturned in 2010, and challenges to tort reform are underway in most states where tort reforms have been enacted. Other state reforms may also be overturned, although we cannot predict with any certainty how appellate courts will rule. We monitor developments on a state-by-state basis and make business decisions accordingly.

Tort reform proposals are considered from time to time at the Federal level. As in the states, passage of a Federal tort reform package would likely be subject to judicial challenge and we cannot be certain that it would be upheld by the courts.

The Healthcare Reform Act was passed and signed into law in March 2010. Some of the more significant provisions of the Act have not yet become effective, and effects from enacted provisions may gradually increase. We do not expect that the

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provisions thus far enacted will have a significant direct effect on our business, but specific regulations to implement the law are still being written.

The Healthcare Reform Act is expected to have a significant impact on the practice of medicine in future years and could have unanticipated or indirect effects on our business or alter the risk and cost environments in which we and our insureds operate. These risks include: reduced operating margins that may cause physicians and hospitals to join in larger groupings which are more likely to utilize self-insured solutions for HCPL insurance products; use of electronic medical records may lead to additional medical malpractice litigation or increase the cost of litigation; patient dissatisfaction may increase due to greater strain on the patient-physician relationship; there may be an overall increase in healthcare costs which would increase loss costs for claims involving bodily injury; and additional health conditions may be identified as work-related which could increase the number of workers' compensation claims. Conversely, it is anticipated that there will be growth in the number of ancillary healthcare providers that will become customers for HCPL products. We are unable to predict with any certainty the effect that the Healthcare Reform Act or future related legislation will have on our insureds or our business.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) was passed in July 2010. Although provisions of the Act do not appear to materially affect our business, the Act establishes new regulatory oversight of financial institutions. As detailed regulations are developed to implement the provisions of the Dodd-Frank Act, there may be changes in the regulatory environment that affect the way we conduct our operations or the cost of compliance, or both.

One of the federal government bodies created by the Dodd-Frank Act was the Federal Insurance Office (FIO) which, in December 2013, released a proposal on insurance modernization and improvement of the system of insurance regulation in the United States. Although the FIO is prohibited from directly regulating the business of insurance, it has authority to represent the United States in international insurance matters and has limited power to preempt certain types of state insurance laws. The recent proposal advocates significantly greater federal involvement in insurance regulation and identifies necessary reforms by the states to preclude further consideration of direct federal regulation. While the proposal does not necessarily imply that the federal government will displace state regulation completely, it does recommend more of a hybrid approach to insurance regulation. We cannot predict whether the proposals will be adopted or what impact, if any, such proposals or, if enacted, such laws may have on our business, financial condition or results of operations.

In recent years, the insurance industry has been subject to increased scrutiny by regulators and legislators. The NAIC and a number of state legislatures have considered or adopted legislative proposals that alter and, in many cases, increase the authority of state agencies to regulate insurance companies and insurance holding company systems.

Terrorism Risk Insurance Act

The Federal Terrorism Risk Insurance Act (TRIA) was initially enacted in 2002 to ensure the availability of insurance coverage for certain acts of terrorism, as defined in the TRIA. The Terrorism Risk Insurance Program Reauthorization Act of 2007 (Reauthorization Act) extended the program through December 31, 2014. The Reauthorization Act revised the definition of "Act of Terrorism" to remove the requirement that the act of terrorism be committed by an individual acting on behalf of any foreign person or foreign interest in order to be certified under the Reauthorization Act. The Reauthorization Act requires a $100 million loss event to trigger coverage. The Federal government will reimburse 85% of an insurer's losses in excess of the insurer's deductible, up to the maximum annual Federal liability of $100 billion.

Under the Reauthorization Act, we are required to offer terrorism coverage to our commercial policyholders in our workers' compensation line of business, for which we may, when warranted, charge an additional premium. The policyholders may or may not accept such coverage.

International

Workers' Compensation

Our segregated portfolio cell business is reinsured through our subsidiary, Eastern Re Ltd., SPC (Eastern Re), which is organized and licensed as a Cayman Islands unrestricted Class B insurance company. Eastern Re is subject to regulation by the Cayman Islands Monetary Authority (CIMA). Applicable laws and regulations govern the types of policies that the Company can insure or reinsure, the amount of capital that it must maintain and the way it can be

invested, and the payment of dividends without approval by the CIMA. Eastern Re is required to maintain minimum capital of approximately $120,000 and must receive approval from the CIMA before it can pay any dividends.

Lloyd's Syndicate 1729

Syndicate 1729 is regulated in the United Kingdom by the Prudential Regulation Authority and the Financial Conduct Authority. All Lloyd's syndicates must also comply with the bylaws and regulations established by the Council of Lloyd's including submission and approval of an annual business plan and maintenance of stipulated capital levels. Also, the Council of

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Lloyd's may call or assess a percentage of a member's underwriting capacity (currently a maximum of 3%) as a contribution to Lloyd's Central Fund, which, similar to state guaranty funds in the United States, meets policyholder obligations if a Lloyd's member is otherwise unable to do so.

The European Union's executive body, the European Commission, is implementing new capital adequacy and risk management regulations called Solvency II that would apply to businesses within the European Union. Solvency II is currently required to be implemented on January 1, 2016, and certain interim transition measures are required for 2014 and 2015. We expect to comply with the requirements in accordance with the timetable set out by the Council of Lloyd's.

Enterprise Risk Management

As a large property and casualty insurance provider, we are exposed to many risks. These risks, whether taken intentionally or unintentionally, are a function of the environment within which we operate. Since certain risks can be correlated with other risks, an event or a series of events can impact multiple areas of the Company simultaneously and have a material effect on the Company's results of operations, financial position and/or liquidity. In response to these exposures we have implemented an Enterprise Risk Management (ERM) program. Our ERM program consists of numerous processes and controls that have been designed by our senior management, with oversight by our Board of Directors, and have been implemented across our organization. We utilize ERM to identify potential risks from all aspects of our operations and to evaluate these risks in manner that is both prudent and balanced. Our primary objective is to develop a risk appetite that creates and preserves value for all of our stakeholders.

Employees

At January 1, 2014, upon completion of our merger with Eastern, we had 962 employees, none of whom were represented by a labor union. We consider our employee relations to be good.

ITEM 1A. RISK FACTORS.

There are a number of factors, many beyond our control, which may cause results to differ significantly from our expectations. Some of these factors are described below. Any factor described in this report could by itself, or together with one or more other factors, have a negative effect on our business, results of operations and/or financial condition. There may be factors not described in this report that could also cause results to differ from our expectations.

Insurance market conditions may alter the effectiveness of our current business strategy and impact our revenues.

The property and casualty insurance business is highly competitive. We compete in a fragmented market comprised of many insurers, ranging from smaller single state mono-line insurers who have an extensive knowledge of local markets to large national insurers who offer multiple product lines and whose financial strength and resources may be greater than ours. In many instances, coverage we offer is also available through mutual entities whose return on equity objectives may be lower than ours. Also, there are many opportunities for self-insurance and for participation in an alternative risk transfer mechanism, such as captive insurers or risk retention groups.

Competition in the property and casualty insurance business is based on many factors, including premiums charged and other terms and conditions of coverage, services provided, financial ratings assigned by independent rating agencies, claims services, reputation, geographic scope, local presence, agent and client relationships, financial strength and the experience of the insurance company in the line of insurance to be written. Actions of competitors could adversely affect our ability to attract and retain business at current premium levels, impact our market share and reduce the profits that would otherwise arise from operations.

Because we are a property and casualty insurer, our business may suffer as a result of unforeseen catastrophe losses.

As a property and casualty insurer we are exposed to claims arising out of catastrophes, primarily through our workers' compensation and Syndicate 1729 operations. Catastrophes can be caused by various events, including hurricanes, tsunamis, tornadoes, windstorms, earthquakes, hailstorms, explosions, flooding, severe winter weather and fires and may include man-made events, such as terrorist attacks or a wide-spread financial crisis. The incidence, frequency and severity of catastrophes are inherently unpredictable. While we use historical data and modeling tools to assess our potential exposure to catastrophic losses under various conditions and probability scenarios, such assessments do not necessarily accurately predict future losses or accurately measure our potential exposure. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event.

Insurance companies are not permitted to reserve for a catastrophe until it has occurred. Although we purchase reinsurance protection for risks we believe bear a significant level of catastrophe exposure, actual losses resulting from a

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catastrophic event or events may exceed our reinsurance protection. It is therefore possible that a catastrophic event or multiple catastrophic events could have a material adverse effect on our financial position, results of operations and liquidity.

Our results of operations and financial condition may be affected if actual insured losses differ from our loss reserves or if actual amounts recoverable under reinsurance agreements differ from our estimated recoverables.

We establish reserves as balance sheet liabilities representing our estimates of amounts needed to resolve reported and unreported losses and pay related loss adjustment expenses. Our largest liability is our reserve for loss and loss adjustment expenses. Due to the size of our reserve for loss and loss adjustment expenses, even a small percentage adjustment to our reserve can have a material effect on our results of operations for the period in which the change is made.

The process of estimating loss reserves is complex. Significant periods of time often elapse between the occurrence of an insured loss, the reporting of the loss by the insured and payment of that loss. Ultimate loss costs, even for claims with similar characteristics, can vary significantly depending upon many factors, including but not limited to, the nature of the claim, including whether or not the claim is an individual or a mass tort claim, and the personal situation of the claimant or the claimant's family, the outcome of jury trials, the legislative and judicial climate where the insured event occurred, general economic conditions and, for claims involving bodily injury, the trend of healthcare costs. Consequently, the loss cost estimation process requires actuarial skill and the application of judgment, and such estimates require periodic revision. As part of the reserving process, we review the known facts surrounding reported claims as well as historical claims data and consider the impact of various factors such as:

- for reported claims, the nature of the claim and the jurisdiction in which the claim occurred;
- trends in paid and incurred loss development;
- trends in claim frequency and severity;
- emerging economic and social trends;
- trend of healthcare costs for claims involving bodily injury;
- inflation and levels of employment; and
- changes in the regulatory legal and political environment.

This process assumes that past experience, adjusted for the effects of current developments and anticipated trends, is an appropriate, but not necessarily accurate, basis for predicting future events. There is no precise method for evaluating the impact of any specific factor on the adequacy of reserves, and actual results are likely to differ from original estimates. We evaluate our reserves each period and increase or decrease reserves as necessary based on our estimate of future claims payments. An increase to reserves has a negative effect on our results of operations in the period of increase; a reduction to reserves has a positive effect on our results of operations in the period of reduction.

Our loss reserves also may be affected by court decisions that expand liability of our policies after they have been issued and priced. In addition, a significant jury award, or series of awards, against one or more of our insureds could require us to pay large sums of money in excess of our reserved amounts. Due to uncertainties inherent in the jury system, any case that is litigated to a jury verdict has the potential to incur a loss that has a material adverse effect on our results of operations.

We purchase reinsurance to mitigate the effect of large losses. Our receivable from reinsurers on unpaid losses and loss adjustment expenses represents our estimate of the amount of our reserve for losses that will be recoverable under our reinsurance programs. We base our estimate of funds recoverable upon our expectation of ultimate losses and the portion of those losses that we estimate to be allocable to reinsurers based upon the terms and conditions of our reinsurance agreements. Given the uncertainty of the ultimate amounts of our losses, our estimates of losses and related amounts recoverable may vary significantly from the eventual outcome. Also, we estimate premiums ceded under reinsurance agreements wherein the premium due to the reinsurer, subject to certain maximums and minimums, is based in part on losses reimbursed or to be reimbursed under the agreement. Due to the size of our reinsurance balances, changes to our estimate of the amount of reinsurance that is due to us could have a material effect on our results of operations in the period for which the change is made.

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We are exposed to and may face adverse developments involving mass tort products liability claims arising from allegedly defective medical products, including medical devices, biotechnology and diagnostic products, prescription and non-prescription pharmaceuticals, personal care products or animal healthcare products.

Establishing claim and claim adjustment expense reserves for mass tort claims is subject to uncertainties due to many factors, including expanded theories of liability, geographical location and jurisdiction of the lawsuits and the number of manufacturers and/or distributors involved. Moreover, it is difficult to estimate our ultimate liability for such claims due to evolving judicial interpretations of various tort theories of liability and defense theories, such as federal preemption and joint and several liability, as well as the application of insurance coverage to these claims.

If market conditions cause reinsurance to be more costly or unavailable, we may be required to bear increased risk or reduce the level of our underwriting commitments.

As part of our overall risk and capacity management strategy, we purchase reinsurance for significant amounts of risk underwritten by our insurance company subsidiaries. Market conditions beyond our control determine the availability and cost of the reinsurance. We may be unable to maintain current reinsurance coverage or to obtain other reinsurance coverage in adequate amounts and at favorable rates. If we are unable to renew our expiring coverage or to obtain new reinsurance coverage, either our net exposure to risk would increase or, if we are unwilling to bear an increase in net risk exposures, we would need to reduce the amount of our underwritten risk.

We cannot guarantee that our reinsurers will pay in a timely fashion or at all, and, as a result, we could experience losses.

We transfer part of our risks to reinsurance companies in exchange for part of the premium we receive in connection with the risk. Although our reinsurance agreements make the reinsurer liable to us to the extent the risk is transferred, our liability to our policyholders remains our responsibility. Reinsurers may periodically dispute our demand for reimbursement from them based upon their interpretation of the terms of our agreements or may fail to pay us for financial or other reasons. If reinsurers refuse or fail to pay us or fail to pay on a timely basis, our financial results and/or cash flows would be adversely affected and could have a material effect on our results of operations in the period in which uncollectible amounts are identified.

At December 31, 2013 our Receivable from reinsurers on unpaid losses is $247.5 million and our Receivable from reinsurers on paid losses is $3.2 million. As of December 31, 2013 the estimated net amount due from four of our reinsurers exceeded $20 million, on an individual basis, with the largest estimated amount due from an individual reinsurer being $26.0 million. A table listing significant reinsurers is provided in Item 7. Management's Discussion and Analysis, as a part of the Liquidity section, under the caption "Reinsurance".

Our claims handling could result in a bad faith claim against us.

We have been, from time to time, sued for allegedly acting in bad faith during our handling of a claim. The damages claimed in actions for bad faith may include amounts owed by the insured in excess of the policy limits as well as consequential and punitive damages. Awards above policy limits are possible whenever a case is taken to trial. These actions have the potential to have a material adverse effect on our financial condition and results of operations.

Changes in healthcare policy could have a material effect on our operations.

The Healthcare Reform Act was passed and signed into law in March 2010. While the primary provisions of the Healthcare Reform Act do not appear to directly affect our business, specific regulations to implement the law are still being written.

The Healthcare Reform Act is expected to have a significant impact on the practice of medicine in future years and could have unanticipated or indirect effects on our business or alter the risk and cost environments in which we and our insureds operate. These risks include: reduced operating margins that may cause physicians and hospitals to join in larger groupings which are more likely to utilize self-insured solutions for HCPL insurance products; use of electronic medical records may lead to additional medical malpractice litigation or increase the cost of litigation; patient dissatisfaction may increase due to greater strain on the patient-physician relationship; there may be an overall increase in healthcare costs which would increase loss costs for claims involving bodily injury; and additional health conditions may be identified as work-related which could increase the number of workers' compensation claims. Conversely, it is anticipated that there will be growth in the number of ancillary healthcare providers that will become customers for HCPL products. We are unable to predict with any certainty the effect that the Healthcare Reform Act

or future related legislation will have on our insureds or our business.

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Changes due to financial reform legislation could have a material effect on our operations.

The Dodd-Frank Act was passed and signed into law in July 2010. The provisions of the bill do not appear to materially affect our operations; however, the bill establishes new regulatory oversight of financial institutions and regulations to implement the Act remain in the process of development. As detailed regulations are developed to implement the provisions of the bill, there may be changes in the regulatory environment that affect the way we conduct our operations or the cost of regulatory compliance, or both. We are unable to predict with any certainty the effect that the Dodd-Frank Act will have on our business.

One of the federal government bodies created by the Dodd-Frank Act was the Federal Insurance Office (FIO) which, in December 2013, released a proposal on insurance modernization and improvement of the system of insurance regulation in the United States. Although the FIO is prohibited from directly regulating the business of insurance, it has authority to represent the United States in international insurance matters and has limited powered to preempt certain types of state insurance laws. The recent proposal advocates significantly greater federal involvement in insurance regulation and identifies necessary reforms by the states to preclude further consideration of direct federal regulation. While the proposal does not necessarily imply that the federal government will displace state regulation completely, it does recommend more of a hybrid approach to insurance regulation. We cannot predict whether the proposals will be adopted or what impact, if any, such proposals or, if enacted, such laws may have on our business, financial condition or results of operations.

The passage of tort reform or other legislation, and the subsequent review of such laws by the courts could have a material impact on our operations.

Tort reforms generally restrict the ability of a plaintiff to recover damages by, among other limitations, eliminating certain claims that may be heard in a court, limiting the amount or types of damages, changing statutes of limitation or the period of time to make a claim, and limiting venue or court selection. A number of states in which we do business, notably Florida, Georgia, Illinois, Missouri, Ohio, Texas, and West Virginia, enacted tort reform legislation in the previous decade as a response to a rapid deterioration in loss trends.

Challenges to tort reform are underway in most states where tort reforms have been enacted. The statutes in Missouri were overturned in 2012; those in Georgia and Illinois were overturned in 2010. We cannot predict with any certainty how other state appellate courts will rule on these laws. While the effects of tort reform have been generally beneficial to our business in states where these laws have been enacted, there can be no assurance that such reforms will be ultimately upheld by the courts. Further, if tort reforms are effective, the business of providing professional liability insurance may become more attractive, thereby causing an increase in competition. In addition, the enactment of tort reforms could be accompanied by legislation or regulatory actions that may be detrimental to our business because of expected benefits which may or may not be realized. These expectations could result in regulatory or legislative action limiting the ability of professional liability insurers to maintain rates at adequate levels.

Coverage mandates or other expanded insurance requirements could also be imposed. States may also consider state-sponsored insurance entities that could remove our potential insureds from the private insurance market.

We continue to monitor developments on a state-by-state basis, and make business decisions accordingly.

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Our performance is dependent on the business, economic, regulatory and legislative conditions of states where we have a significant amount of business.

Our top five states, Alabama, Ohio, Texas, Florida and Michigan, represented 43% of our gross premiums written for the year ended December 31, 2013. Moreover, on a combined basis, Alabama, Ohio and Texas accounted for 30%, 32%, and 33% of our gross premiums written for the years ended December 31, 2013, 2012 and 2011, respectively. Additionally, although Eastern will not be a part of our consolidated results until January 1, 2014, a significant portion of Eastern's total gross premium written for the year ended December 31, 2013 was in the state of Pennsylvania. Unfavorable business, economic or regulatory conditions in any of these states could have a disproportionately greater effect on us than they would if we were less geographically concentrated.

We may be unable to identify future strategic acquisitions or expected benefits from completed and proposed acquisitions may not be achieved or may be delayed longer than expected.

Our corporate strategy anticipates growth through the acquisition of other companies or books of business. However, such expansion is opportunistic and sporadic, and there is no guarantee that we will be able to identify strategic acquisition targets in the future. Additionally, if we are able to identify a strategic target for acquisition, state insurance regulation concerning change or acquisition of control could delay or prevent us from growing through acquisitions. State insurance regulatory codes provide that the acquisition of “control” of a domestic insurer or of any person that directly or indirectly controls a domestic insurer cannot be consummated without the prior approval of the domiciliary insurance regulator. There is no assurance that we will receive such approval from the respective insurance regulator or that such approvals will not be conditioned in a manner that materially and adversely affects the aggregate economic value and business benefits expected to be obtained and cause us to not complete the acquisition. The Company performs thorough due diligence before agreeing to a merger or acquisition, however there is no guarantee that the procedures we perform will adequately identify all potential weaknesses or liabilities of the target company or potential risks to the consolidated entity.

There is also no guarantee that our recent acquisitions of Medmarc and Eastern, or acquisitions or businesses acquired in the future will be successfully integrated. Ineffective integration of our businesses and processes may result in substantial costs or delays and adversely affect our ability to compete. The process of integrating an acquired company or business can be complex and costly, and may create unforeseen operating difficulties and expenditures. Potential problems that may arise include, among other reasons, business disruption, loss of customers and employees, the ineffective integration of underwriting, claims handling and actuarial practices, the increase in the inherent uncertainty of reserve estimates for a period of time until stable trends reestablish themselves within the combined organization, diversion of management time and resources to acquisition integration challenges, the cultural challenges associated with integrating employees, increased operating costs, assumption of greater than expected liabilities, or inability to achieve cost savings. Furthermore, claims may be asserted by either the policyholders or shareholders of any acquired entity related to payments or other issues associated with the acquisition and merger into the consolidated entity. Such claims may prove costly or difficult to resolve or may have unanticipated consequences.

If we are unable to maintain favorable financial strength ratings, it may be more difficult for us to write new business or renew our existing business.

Independent rating agencies assess and rate the claims-paying ability and the financial strength of insurers based upon criteria established by the agencies. Periodically the rating agencies evaluate us to confirm that we continue to meet the criteria of previously assigned ratings. The financial strength ratings assigned by rating agencies to insurance companies represent independent opinions of financial strength and ability to meet policyholder and debt obligations and are not directed toward the protection of equity investors.

Our principal operating subsidiaries hold favorable claims paying ratings with A.M. Best, Fitch and Moody’s. Claims paying ratings are used by agents and customers as an important means of assessing the financial strength and quality of insurers. If our financial position deteriorates or the rating agencies significantly change the rating criteria that are used to determine ratings, we may not maintain our favorable financial strength ratings from the rating agencies. A downgrade or involuntary withdrawal of any such rating could limit or prevent us from writing desirable business.

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The following table, which includes both our investment in Syndicate 1729 as of January 1, 2014 and subsidiaries acquired January 1, 2014, presents the claims paying ratings of our core insurance subsidiaries as of February 12, 2014.

	Rating Agency (1)		
	A.M. Best (www.ambest.com)	Fitch (www.fitchratings.com)	Moody’s (www.moodys.com)
ProAssurance Indemnity Company, Inc.	A+ (Superior)	A (Strong)	A2
ProAssurance Casualty Company	A+ (Superior)	A (Strong)	A2
ProAssurance Specialty Insurance Company, Inc.	A+ (Superior)	A (Strong)	NR
Podiatry Insurance Company of America	A (Excellent)	A (Strong)	A2
PACO Assurance Company, Inc.	A- (Excellent)	A (Strong)	NR
Noetic Specialty Insurance Company	A (Excellent)	A (Strong)	NR
Medmarc Casualty Insurance Company	A (Excellent)	A (Strong)	NR
Lloyd's Syndicate 1729 (2)	A (Excellent)	A+ (Strong)	A+ (Strong)
Eastern Alliance Insurance Company	A (Excellent)	NR	NR
Allied Eastern Indemnity Company	A (Excellent)	NR	NR
Eastern Advantage Assurance Company	A (Excellent)	NR	NR
Eastern Re Ltd., SPC	A (Excellent)	NR	NR

(1) NR indicates that the subsidiary has not been rated by the listed rating agency.
(2) Rating provided is the rating applicable to all Lloyd's syndicates.

Four rating agencies evaluate and rate our ability to service current debt and potential debt. These financial strength ratings reflect each agency’s independent evaluation of our ability to meet our obligation to holders of our debt, if any. While these ratings may be of greater interest to investors than our claims paying ratings, these are not ratings of our equity securities nor a recommendation to buy, hold or sell our equity securities.

Our business could be adversely affected by the loss or consolidation of independent agents, agencies, or brokers or brokerage firms.

We depend in part on the services of independent agents and brokers in the marketing of our insurance products. We face competition from other insurance companies for their services and allegiance. These agents and brokers may choose to direct business to competing insurance companies.

Our success is dependent upon our abIGN="right">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 2,138 710,400 1.89% 12/01/2013 74 52,500 0.14% 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.

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.

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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.

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Our board of directors declares the following quarter s 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
2nd Quarter 2003	$ 0.1558	$ 0.625	July 15, 2003
3rd Quarter 2003	$ 0.1575	$ 0.625	October 15, 2003
4th Quarter 2003	$ 0.1575	$ 0.625	January 15, 2004
1st Quarter 2004	$ 0.1591	$ 0.640	April 15, 2004
2nd Quarter 2004	$ 0.1591	$ 0.640	July 15, 2004
3rd Quarter 2004	$ 0.1609	$ 0.640	October 15, 2004
4th Quarter 2004	$ 0.1609	$ 0.640	January 18, 2005
1st Quarter 2005	$ 0.1578	$ 0.640	April 15, 2005
2nd Quarter 2005	$ 0.1596	$ 0.640	July 15, 2005
3rd Quarter 2005	$ 0.1613	$ 0.640	October 17, 2005
4th Quarter 2005	$ 0.1613	$ 0.640	January 17, 2006
1st 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 earning 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:

	For the Year Ended December 31,					
	2005		2004		2003	
Distribution Taxability	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%
Total	$ 0.640	100.0%	$ 0.640	100.0%	$ 0.625	100.0%

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.

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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.

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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	
Operating Data:				
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)
Common Share Distributions:				
Common share cash distributions declared	$ 62,292	$ 24,263	$ 2,452	$
Common share cash distributions declared per share	$ 0.640	$ 0.640	$ 0.625	$
Per Share Data:				
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)
Other Data:				
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)
Weighted average common shares outstanding:				
Basic	97,333	37,908	3,987	

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

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	For the Quarter Ended			
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005
Reconciliation of net income (loss) to funds from operations(1):				
Net Income (loss) attributable to common shares	$ (2,581)	$ 748	$ (6,198)	$ (3,929)
Add:				
Real estate related depreciation and amortization	12,350	14,192	21,178	23,303
Minority interest in net income (loss)		3	(287)	(242)
Subtract:				
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
Weighted average common shares outstanding				
Basic	74,421	88,066	104,224	121,097
Diluted	74,441	88,473	104,668	121,975

	As of December 31,			
	2005	2004	2003	2002
Balance Sheet Data:				
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.

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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.

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

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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

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.

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.

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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
Total	$ 198,621

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.

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.

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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.

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):

		Payments due by Period			
Contractual Obligations	**Total**	**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.

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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 .

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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).

	Year Ended December 31,		
	2005	**2004**	**Change**
Rental Revenue			
Same store	$ 15,219	$ 14,537	$ 682
2005 acquisitions	47,861		47,861
2004 acquisitions	58,718	20,140	38,578
Total rental revenue	121,798	34,677	87,121
Rental Expenses			
Same store	3,125	3,047	78
2005 acquisitions	10,479		10,479
2004 acquisitions	15,166	4,158	11,008
Total rental expenses	28,770	7,205	21,565
Net Operating Income (1)			
Same store	12,094	11,490	604
2005 acquisitions	37,382		37,382
2004 acquisitions	43,552	15,982	27,570
Total net operating income	93,028	27,472	65,556
Other Income			
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)
Total other income	6,126	1,421	4,705
Other Expenses			
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
Total other expenses	111,640	29,148	82,492
Minority Interest	526		526
Net loss	$ (11,960)	$ (255)	$ (11,705)

(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.

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.

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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.

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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**
Rental Revenue			
2004 acquisitions	$ 20,140	$	$ 20,140
2003 acquisitions	14,537	2,645	11,892
Total rental revenue	34,677	2,645	32,032
Rental Expenses			
2004 acquisitions	4,158		4,158
2003 acquisitions	3,047	367	2,680
Total rental expenses	7,205	367	6,838
Net Operating Income(1)			
2004 acquisitions	15,982		15,982
2003 acquisitions	11,490	2,278	9,212
Total net operating income	27,472	2,278	25,194
Other Income			
Interest and other income	876	61	815
Gain on hedges	545		545
Total other income	1,421	61	1,360
Other Expenses			
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

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

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

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.

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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

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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.

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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.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

DIVIDEND CAPITAL TRUST INC. AND SUBSIDIARIES

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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

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Dividend Capital Trust Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share information)

	As of December 31,	
	2005	**2004**
ASSETS		
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
Total Investment in Properties	1,994,925	754,064
Less accumulated depreciation and amortization	(96,604)	(21,862)
Net Investment in Properties	1,898,321	732,202
Investments in and advances to unconsolidated investees	6,090	
Net Investment in Real Estate	1,904,411	732,202
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
Total Assets	$ 2,057,695	$ 784,808
LIABILITIES & SHAREHOLDERS EQUITY		
Liabilities:		
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
Total Liabilities	869,307	203,593
Minority Interest	55,577	1
Shareholders Equity:		
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
Additional paid-in capital	1,235,156	611,441
Distributions in excess of earnings	(100,888)	(26,636)

Accumulated other comprehensive loss	(2,789)	(4,268)
Total Shareholders Equity	1,132,811	581,214
Total Liabilities and Shareholders Equity	$ 2,057,695	$ 784,808

The accompanying notes are an integral part of these consolidated financial statements.

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Dividend Capital Trust Inc. and Subsidiaries

Consolidated Statements of Operations

(In thousands, except per share information)

	For the Year Ended December 31,		
	2005	**2004**	**2003**
REVENUE:			
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
EXPENSES:			
Rental expense	13,455	3,375	136
Real estate taxes	15,315	3,830	231
Depreciation and amortization expense	71,023	19,273	1,195
Interest expense	28,712	5,978	385
General and administrative expense	3,004	2,372	412
Asset management fees, related party	8,901	1,525	
Total Expenses	140,410	36,353	2,359
Net Income Before Minority Interest	(12,486)	(255)	347
Minority Interest	(526)		
NET INCOME (LOSS)	$ (11,960)	$ (255)	$ 347
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
Basic	97,333	37,908	3,987
Diluted	97,774	37,928	4,007
NET INCOME (LOSS) PER COMMON SHARE			
Basic	$ (0.12)	$ (0.01)	$ 0.09
Diluted	$ (0.12)	$ (0.01)	$ 0.09

The accompanying notes are an integral part of these consolidated financial statements.

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Dividend Capital Trust Inc. and Subsidiaries

Consolidated Statements of Shareholders Equity (Deficit)

and Other Comprehensive Income (Loss)

For the Years Ended December 31, 2005, 2004 and 2003

(In thousands)

	Common Shares		Additional Paid-in Capital	Distributions in Excess of Earnings	Accumulated Other Comprehensive Loss	Total Shareholders Equity (Deficit)
	Shares	Amount				
Balances at December 31, 2002		$	$ 2	$ (13)	$	$ (11)
Comprehensive income:						
Net income				347		347
Issuance of common shares, net of offering costs	12,470	125	108,812			108,937
Amortization of stock options			3			3
Dividends on common shares				(2,452)		(2,452)
Balances at December 31, 2003	12,470	$ 125	$ 108,817	$ (2,118)	$	$ 106,824
Comprehensive loss:						
Net loss				(255)		(255)
Net unrealized loss from cash flow hedging derivatives					(4,268)	(4,268)
Comprehensive loss						(4,523)
Issuance of common shares, net of offering costs	55,464	554	504,699			505,253
Redemption of common shares	(214)	(2)	(2,081)			(2,083)
Amortization of stock options			6			6
Dividends on common shares				(24,263)		(24,263)
Balances at December 31, 2004	67,720	$ 677	$ 611,441	$ (26,636)	$ (4,268)	$ 581,214
Comprehensive loss:						
Net loss				(11,960)		(11,960)
Net unrealized gain from cash flow hedging derivatives					965	965
Amortization of cash flow hedging derivatives					514	514
Comprehensive loss						(10,481)
Issuance of common shares, net of offering costs	66,457	665	632,954			633,619
Redemption of common shares	(970)	(10)	(9,268)			(9,278)
Amortization of stock options			29			29
Dividends on common shares				(62,292)		(62,292)
Balances at December 31, 2005	133,207	$ 1,332	$ 1,235,156	$ (100,888)	$ (2,789)	$ 1,132,811

The accompanying notes are an integral part of these consolidated financial statements.

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Dividend Capital Trust Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	For the Year Ended December 31,		
	2005	**2004**	**2003**
OPERATING ACTIVITIES:			
Net income (loss)	$ (11,960)	$ (255)	$ 347
Minority interest share of net loss	(526)		
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Real estate depreciation and amortization	71,023	19,273	1,221
Other depreciation and amortization	3,229	1,365	
Increase in other assets	(10,750)	(2,925)	(222)
Gain on hedging activities	(108)	(545)	
Increase in accounts payable, accrued expenses and other liabilities	15,387	4,539	354
Net cash provided by operating activities	66,295	21,452	1,700
INVESTING ACTIVITIES:			
Real estate investments	(750,322)	(548,478)	(149,602)
Increase in restricted cash	(413)	(4,854)	
(Increase) decrease in deferred acquisition costs	2,552	(4,922)	(485)
Increase in notes receivable	(5,585)	(4,314)	
Master lease payments	2,891	2,532	139
Net cash used in investing activities	(750,877)	(560,036)	(149,948)
FINANCING ACTIVITIES:			
Proceeds from (payments on) line of credit, net	12	(996)	1,000
Proceeds from mortgage notes	60,926	55,000	51,850
Principal payments on mortgage notes	(2,852)	(883)	(11,350)
Proceeds from financing obligations	145,332	29,940	2,696
Principal payments on financing obligations	(5,287)	(139)	
Increase in deferred loan costs	(3,893)	(4,866)	(250)
Increase in deferred loan costs financing obligation	(11,419)	(2,845)	
Proceeds from sale of common shares	664,200	547,752	124,139
Offering costs for issuance of common shares, related party	(60,874)	(52,601)	(14,794)
Redemption of common shares	(5,387)	(2,083)	
Increase in restricted cash		(560)	
Settlement of cash flow hedging derivative	(467)	(2,182)	
Distributions to common shareholders	(23,849)	(7,510)	(977)
Distributions to minority interest	(462)		
Net cash provided by financing activities	755,980	558,027	152,314
NET INCREASE IN CASH AND CASH EQUIVALENTS	$ 71,398	$ 19,443	$ 4,066
CASH AND CASH EQUIVALENTS, beginning of year	$ 23,520	$ 4,077	$ 11
CASH AND CASH EQUIVALENTS, end of year	$ 94,918	$ 23,520	$ 4,077
Supplemental Disclosures of Cash Flow Information			

Cash paid for interest expense	$ 22,751	$ 4,740	$ 344
Assumption of secured debt in connection with real estate acquired	$ 434,073	$ 45,619	$
Shares issued pursuant to the distribution reinvestment plan	$ 28,561	$ 8,491	$ 478

The accompanying notes are an integral part of these consolidated financial statements.

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1 Organization

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 subsidiary, Dividend Capital Operating Partnership LP (our partnership), a Delaware limited partnership. As used herein, Dividend Capital Trust , we and us refer to Dividend Capital Trust Inc. and its consolidated subsidiaries 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 equity 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 equity offerings and for the investment and management of our real estate assets.

Note 2 Summary of Significant Accounting Policies

Principles of Consolidation

Our financial statements and the financial statements of our subsidiaries are consolidated in the accompanying consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, we evaluate our relationships with other entities to identify whether they are variable interest entities as defined by Financial Accounting Standards Board (FASB) Interpretation No. 46(R) *Consolidation of Variable Interest Entities* (FIN 46(R)) and to assess whether we are the primary beneficiary of such entities. If the determination is made that we are the primary beneficiary, then that entity is included in our consolidated financial statements in accordance with FIN 46(R).

Reclassifications

Certain items in the consolidated financial statements for 2004 and 2003 have been reclassified to conform with the 2005 presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revision are reflected in the period they are determined to be necessary.

Investment in Real Estate

We capitalize direct costs associated with the acquisition, development or improvement of real estate, including acquisition fees paid to our advisor. Costs associated with acquisition or development pursuits are

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

capitalized as incurred and if the pursuit is abandoned, these costs are expensed in the period in which the pursuit is abandoned. Costs associated with the improvement of our real estate assets are also capitalized as incurred. However, costs incurred in making repairs to and for maintaining our real estate assets are expensed as incurred.

Upon acquisition, the total cost of a property is allocated to land, building, land improvements, tenant improvements and intangible lease assets and liabilities pursuant to Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations* (SFAS No. 141). The allocation of the total cost to land, building, land improvements and tenant improvements is based on our estimate of their fair value based on all available information such as the replacement cost of such assets, appraisals, property condition reports and other related information. Pursuant to SFAS No. 141, the difference between the fair value and the face value of debt assumed in an acquisition are to be recorded as a premium or discount and amortized to interest expense over the life of the debt assumed. The valuation of assumed liabilities is based on the current market rate for similar liabilities. The allocation of the total cost of a property to an intangible lease asset includes the value associated with the in-place leases which may include leasing commissions, legal and other costs. In addition, the allocation of the total cost of a property requires allocating costs to an intangible asset or liability resulting from in-place leases being above or below the market rental rates on the date of the acquisition. These assets or liabilities will be amortized over the life of the remaining in-place leases as an adjustment to revenue. Aggregate amortization expense for amortizing intangible assets was approximately $23.6 million, $6.4 million and $430,000 for the years ended December 31, 2005, 2004 and 2003, respectively. As of December 31, 2005, such intangible assets had a weighted average amortization life of approximately of 5.8 years. The following table describes the estimated net amortization of such intangible assets for the next five years (dollar amounts are in thousands):

For the Year Ended	Estimated Amortization Expense
2006	$ 27,800
2007	23,600
2008	19,200
2009	13,000
2010	10,000
	$ 93,600

Real estate, including land, building, land improvements, tenant improvements and intangible lease assets and liabilities are stated at historical cost less accumulated depreciation and amortization. Depreciation and amortization expense is computed on a straight-line basis over the estimated useful lives as follows:

Description	Depreciable Life
Land	Not depreciated
Buildings	40 years
Building and land improvements	20 years
Tenant improvements	Over lease term
Lease commissions	Over lease term
Intangible lease assets and liabilities	Average term of leases for property
Above/below market rent assets/liabilities	Over lease term

The table above reflects the standard depreciable lives typically used to compute depreciation and amortization. However, such depreciable lives may be different based on the estimated useful life of such assets or liabilities. The cost of assets sold or retired and the related accumulated depreciation and/or amortization is removed from the accounts and the resulting gain or loss is reflected in operations in the period in which

such sale or retirement occurs.

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Equity Method

We present investments in certain unconsolidated entities under the equity method. The equity method is used when we have the ability to exercise significant influence over operating and financial policies of an investee but do not have control of the investee. Under the equity method, these investments (including advances to the investee) are initially recorded in our consolidated balance sheets at our cost and are subsequently adjusted to reflect our proportionate share of net earnings or losses of each of the investees, distributions received and certain other adjustments as appropriate. Such investments are included in investments in and advances to unconsolidated investees on the accompanying balance sheets to the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash held in financial institutions and other highly liquid short-term investments with original maturities of three months or less.

Restricted Cash

Restricted cash includes cash held in escrow in connection with property acquisitions, utility deposits, real estate tax payments and issuance of mortgage debt.

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We periodically evaluate the recoverability of our long-lived assets based on estimated future cash flows and the estimated liquidation value of such long-lived assets, and provide for impairment if such undiscounted cash flows are insufficient to recover the carrying amount of the long-lived asset. If impaired, the long-lived asset will be written down to its estimated fair value.

Notes Receivable

Notes receivable consists of amounts loaned as part of a strategic relationship we entered into to acquire properties from a third-party national real estate developer. We have committed, but have no legal obligation, to lend up to $15.0 million in connection with various development projects. As of December 31, 2005 and 2004, we had $9.7 million and $4.2 million in notes receivable outstanding. In addition to the 9.5% to 10% interest earned on the notes, we also obtained certain acquisition rights to the properties being developed. These notes have maturity dates ranging from July 2007 to June 2008. For the years ended December 31, 2005 and 2004, we recognized interest income from these notes of approximately $779,000 and $267,000, respectively. No notes were outstanding in 2003 and as such no interest was earned on notes receivable in 2003. All costs associated with executing these notes have been capitalized as deferred loan costs and are included in other assets on the accompanying consolidated balance sheets. Such costs are amortized as a reduction in interest income over the term of the outstanding notes receivable.

Deferred Loan Costs

Deferred loan costs include fees and costs incurred to obtain long-term financing. These fees and costs are being amortized over the terms of the related loans. Accumulated amortization of deferred loan costs was approximately $2.9 million and $875,000 as of December 31, 2005 and 2004, respectively. Unamortized deferred loan costs are written-off when debt is retired before the maturity date.

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Notes to Consolidated Financial Statements (Continued)

During the years ended December 31, 2005 and 2004, our partnership incurred upfront costs of approximately $11.6 million and $2.6 million payable to our advisor and other affiliates for affecting transactions pursuant to our partnership s private placement, 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 (see Note 8 Our Partnership s Private Placement). As described in Note 8 Our Partnership s Private Placement, if our partnership elects to exercise any purchase option and issue limited partnership units, the unamortized 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.

Costs of Raising Capital

Costs incurred in connection with the issuance of equity securities are deducted from shareholders equity. Such costs primarily include the up-front fees paid to related parties (see Note 13 Related Party Transactions).

Debt

Debt consists of fixed and variable rate secured mortgage debt, a senior unsecured revolving credit facility and a senior secured revolving credit facility. Our fixed rate secured mortgage debt that was assumed in connection with our acquisition activities includes premiums which, net of accumulated amortization, were $9.9 million and $2.5 million as of December 31, 2005 and 2004, respectively.

Comprehensive Loss

We report comprehensive income (loss) in the accompanying consolidated statements of shareholders equity (deficit) and other comprehensive income (loss). Amounts reported in accumulated other comprehensive income (loss) related to hedging transactions will be amortized to interest expense over the life of our hedged debt issuances. Any ineffectiveness, as defined by SFAS No. 133 (defined below), related to our hedging transactions are reported in the accompanying consolidated statements of operations. During the years ended December 31, 2005 and 2004, we recorded gains of approximately $108,000 and $545,000, respectively, related to ineffectiveness on our hedging activities (see Note 6 Financial Instruments and Hedging Activities). There were no such gains or losses recorded during the year ended December 31, 2003.

Derivative Instruments and Hedging Activities

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS No. 133, we record all derivatives on our consolidated balance sheets at fair value. Accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the designation of the derivative. Derivatives used to hedge our exposure to changes in the fair value of an asset, liability, or firm commitments attributable to a particular risk are considered fair value hedges. Derivatives used to hedge our exposure to variability in expected future interest payments, or other types of forecasted transactions, are considered cash flow hedges.

As of December 31, 2005, all of the hedges entered into by us had been designated as cash flow hedges. For derivatives designated as cash flow hedges, the changes in the fair value of the derivative that represent changes in expected future cash flows that are effectively hedged by the derivative are initially reported in other

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Notes to Consolidated Financial Statements (Continued)

comprehensive income on our consolidated statements of shareholders equity (deficit) and other comprehensive income (loss) (i.e., not included in earnings) until the derivative is settled. Upon settlement, the effective portion of the hedge is recognized in other comprehensive income (loss) and amortized over the term of the designated cash flow or transaction the derivative was intended to hedge. Any change in value of the derivative that is deemed to be ineffective is charged directly to earnings when the determination of ineffectiveness is made. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. We do not use derivatives for trading or speculative purposes.

Our objective in using derivatives is to add stability to future interest expense and to manage our exposure to interest rate movements associated with our forecasted debt issuances. To accomplish this objective, 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 and 2004, such derivatives were used to hedge the variability in future interest expense associated with forecasted issuances of debt. We did not employ any such derivatives during the year ended December 31, 2003.

Revenue Recognition

We record rental revenue for the full term of each lease on a straight-line basis. Certain properties have leases that provide for customer occupancy during periods that no rent is due or where minimum rent payments increase during the term of the lease. Accordingly, we record a receivable from customers that we expect to collect over the remaining lease term rather than currently, which will be recorded as straight-line rents receivable. When we acquire a property, the term of existing leases is considered to commence as of the acquisition date for the purposes of this calculation. For the years ended December 31, 2005, 2004 and 2003, the total increase to rental revenues due to straight-line rent adjustments were $5.3 million, $2.1 million and $85,000, respectively.

In connection with property acquisitions, we may acquire leases with rental rates above and/or below the market rental rates. Such differences are recorded as an intangible asset or liability pursuant to SFAS No. 141 and amortized to rental revenues over the life of the respective leases. For the years ended December 31, 2005, 2004, and 2003, the total net increase (decrease) to rental revenues due to the amortization of above and below market rents was $(2.1) million, $(840,000) and $5,000, respectively.

In connection with certain property acquisitions, we have entered into 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. For financial reporting purposes, rental payments under master lease agreements are reflected as a reduction of the basis of the underlying property rather than rental revenue. For the years ended December 31, 2005, 2004 and 2003, the total master lease payments received were approximately $2.9 million, $2.5 million and $139,000, respectively.

Stock-Based Compensation

We have a stock-based employee compensation plan and an independent director compensation plan (see Note 11 Stock Option Plans and Warrant Purchase Agreements). We account for these plans in accordance with SFAS No. 123, *Accounting for Stock-Based Payment* (SFAS No. 123) and its related interpretations. On both July 1, 2005 and July 1, 2004, we issued a total of 20,000 options to our independent directors. On July 19, 2005 and January 6, 2006, respectively, we received and accepted the resignations of two independent directors resulting in the forfeiture of all 20,000 options that had previously been issued to these directors. As of December 31, 2005,

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Notes to Consolidated Financial Statements (Continued)

2004 and 2003, we had 60,000, 60,000 and 40,000 options outstanding, respectively, under the Independent Director Option Plan. As of December 31, 2005 and 2004, 107,500 options had been granted under the Employee Option Plan. There were no options outstanding under the Employee Option Plan during the year ended December 31, 2003.

Options granted under both the Independent Director Option Plan and the Employee Option Plan are valued using the Black-Scholes option-pricing model and are amortized to salary expense on a straight-line basis over the period during which the right to exercise such options fully vests. Such expense is included in general and administrative expense on the accompanying consolidated statements of operations.

Interest and Other Income

Interest and other income consist primarily of interest income on cash balances and notes receivable and gains (losses) on hedging transactions.

Basic and Diluted Net Income per Common Share

Basic net income per common share is determined by dividing net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per common share includes the effects of potentially issuable common stock, but only if dilutive, including the presumed exchange of limited partnership units for common shares.

New Accounting Pronouncements

In January 2003, the 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. The adoption of FIN 46(R) did not have a material impact on our financial position, results of operations or cash flows.

In December 2004, the 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 of 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 publicly listed 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.

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Notes to Consolidated Financial Statements (Continued)

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 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.

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Notes to Consolidated Financial Statements (Continued)

Note 3 Real Estate

The following table describes the properties that are consolidated in our financial statements as of December 31, 2005 and 2004, respectively (dollar amounts in thousands).

	2005			2004		
	Number of Buildings	Historical Cost (1)	Percent of Total Cost	Number of Buildings	Historical Cost (1)	Percent of Total Cost
Target Markets:						
Atlanta	48	$ 263,604	13.21%	18	$ 147,660	19.58%
Baltimore	10	97,422	4.88%			
Charlotte	4	22,290	1.12%			
Chicago	14	169,839	8.51%	1	11,370	1.51%
Cincinnati	18	132,591	6.65%	7	78,925	10.47%
Columbus	3	49,246	2.47%			
Dallas	49	250,564	12.56%	18	93,033	12.34%
Denver	1	9,027	0.45%	1	8,949	1.19%
Harrisburg/Lehigh Valley	5	45,852	2.30%			
Houston	33	129,280	6.48%	21	83,957	11.13%
Indianapolis	3	57,239	2.87%	1	15,139	2.01%
Los Angeles Basin	11	85,602	4.29%	4	32,744	4.34%
Louisville	2	18,350	0.92%	2	18,351	2.43%
Memphis	11	184,259	9.24%	3	39,559	5.25%
Miami	3	26,025	1.30%			
Nashville	4	80,048	4.01%	3	59,340	7.87%
New Jersey	8	77,871	3.90%			
Orlando	2	15,718	0.79%	2	15,687	2.08%
Phoenix	14	89,226	4.47%	13	79,195	10.50%
San Antonio	2	7,699	0.39%	2	7,725	1.02%
San Francisco Bay Area	5	36,337	1.82%	5	35,371	4.69%
Seattle	8	88,214	4.42%			
Non-Target Market:						
Boston	6	42,172	2.11%	5	27,059	3.59%
Total operating properties	264	1,978,475	99.16%	106	754,064	100.00%
Properties under development	1	8,401	0.42%			
Land held for development	n/a	8,049	0.40%	n/a		
Grand Total	265	$ 1,994,925	100.00%	106	$ 754,064	100.00%

(1) Represents historical 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.

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We account for the acquisition of properties in accordance with SFAS No. 141 which requires that the total cost of property acquisitions be allocated to identifiable tangible and intangible assets. The following table describes the allocation of our portfolio to these assets and liabilities, which includes costs capitalized subsequent to our acquisition of such properties, as of December 31, 2005 (dollar amounts are in thousands).

	2005 Acquisitions		2004 Acquisitions		2003 Acquisitions		Total	
	Balance	% of Total	Balance	% of Total	Balance	% of Total	Balance	% of Total
Land	$ 197,203	16.4%	$ 102,675	17.0%	$ 17,380	11.2%	$ 317,258	16.2%
Land Improvements	75,872	6.3%	46,915	7.8%	7,121	4.6%	129,908	6.6%
Building	709,580	59.2%	350,610	58.1%	110,449	71.0%	1,170,639	59.9%
Tenant Improvements	125,681	10.5%	60,311	9.9%	7,978	5.1%	193,970	9.9%
Tenant Leasing Costs	1,911	0.2%	2,233	0.4%	753	0.5%	4,897	0.2%
Intangible Assets	86,961	7.2%	37,255	6.2%	11,017	7.1%	135,233	6.9%
Above Mkt. Rent	10,188	0.8%	7,704	1.3%	2,151	1.4%	20,043	1.0%
Below Mkt. Rent	(7,143)	(0.6)%	(4,456)	(0.7)%	(1,460)	(0.9)%	(13,059)	(0.7)%
Total	$ 1,200,253	100.0%	$ 603,247	100.0%	$ 155,389	100.0%	$ 1,958,889	100.0%

2005 Acquisition Activity

During the year ended December 31, 2005, we acquired 158 properties (104 of which were acquired in the Cabot merger discussed below) 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 offerings, proceeds from our revolving credit facility and short-term, unsecured debt and the assumption of approximately $434.1 million in mortgage debt.

Merger with Cabot Industrial Value Fund, Inc. and Subsequent Acquisitions and Dispositions by Cabot Industrial Value Fund, LP

We entered into an agreement dated June 17, 2005 (the Agreement) with Cabot Industrial Value Fund, Inc. (Cabot), an unrelated, privately held third-party, to acquire by merger all of the outstanding shares of Cabot s common stock. Cabot is structured as an UPREIT whereby it is the sole general partner of the Cabot Partnership (defined below), the subsidiary through which all of the Cabot properties are owned and operated. Our advisor and its affiliates subsequently acquired a less than 0.1% interest in Cabot in August 2005 (see Note 10 Minority Interest).

Pursuant to the Agreement, on July 21, 2005, we completed the merger and acquired all 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 (the Cabot Partnership), 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.

The remaining interest in the Cabot Partnership continues to be owned by Cabot Industrial Fund Manager, LLC, the previous general partner of the Cabot Partnership (the Manager), and other limited partners. At closing, we entered into an agreement whereby we have the option to acquire the remaining interests in the Cabot Partnership. Through this agreement, the remaining limited partners, including the Manager, have an initial

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

option to put the remaining interests to us beginning April 1, 2006 and ending July 1, 2006. In addition, we have an initial option to call the remaining interests beginning April 1, 2007 and ending July 1, 2007. Subsequent to these initial options, the limited partners and we will continue to have put and call options to purchase or sell the remaining interests and the price of such remaining interests would be based upon fair value.

On August 1, 2005, the Cabot Partnership, pursuant to a purchase and sale agreement dated August 27, 2004, completed the acquisition of a bulk distribution facility for total consideration of approximately $12.9 million. The facility is located in Kent, Washington, a sub-market of Seattle, and is comprised of 182,480 rentable square feet.

On August 15, 2005, the Cabot Partnership completed the disposition of the Helen Street property, a distribution center located in New Jersey. The purchase and sale agreement was entered into on July 8, 2005, between the Cabot Partnership and an unrelated third-party. The selling price of approximately $43.0 million was negotiated between the Cabot Partnership s general partner at the time, and the third-party seller.

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

Market	Buildings	Gross Leasable Area (in thousands)
Atlanta	29	1,457
Baltimore	3	432
Boston	1	165
Charlotte	3	346
Chicago	6	1,074
Cincinnati	11	1,497
Columbus	3	1,213
Dallas	29	2,249
Los Angeles	7	725
Miami	1	66
New Jersey	3	483
Seattle	8	1,199
Total	104	10,906

Other Notable Acquisitions

Memphis Portfolio On December 23, 2004 we entered into a purchase agreement to acquire seven bulk distribution and warehouse facilities comprising approximately 3.6 million square feet located in Memphis, Tennessee. Beginning on February 2, 2005, and ending on May 13, 2005, we acquired the following seven distribution facilities in connection with our purchase agreement with Panattoni Development Company LLC, an unrelated third-party: the Technicolor II Distribution Facility, the Shelby 4, 5, 18 and 19 Distribution Facilities and the Eastpark I and II Distribution Facilities. We purchased these facilities for a total cost of approximately $132.8 million, which includes the acquisition fees paid to our advisor. In addition to using net proceeds from our public and private offerings, we assumed mortgage debt of approximately $30.6 million, which includes a premium of approximately $2.4 million, associated with the acquisition of these properties.

Baltimore-Washington Portfolio On April 12, 2005, we purchased seven distribution facilities (the Baltimore-Washington portfolio) comprising 874,455 square feet located in Baltimore, Maryland. We

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Notes to Consolidated Financial Statements (Continued)

purchased the Baltimore-Washington portfolio for a total cost of approximately $45.6 million, including acquisition fees paid to our advisor. In addition to using net proceeds from our public and private offerings, we assumed mortgage debt of approximately $27.4 million, which includes a premium of approximately $1.8 million, associated with the acquisition of these properties.

Blackhawk Portfolio On June 13, 2005, we purchased six distribution facilities (Blackhawk) comprising 1,378,660 square feet. Five of the six distribution facilities comprise 1,078,660 square feet and are located in Chicago, Illinois. The other distribution facility comprising 300,000 square feet is located in Memphis, Tennessee. We purchased Blackhawk for a total cost of approximately $59.5 million, including acquisition fees paid to our advisor. In addition to using net proceeds from out public and private offerings, we assumed mortgage debt of approximately $24.7 million, which includes a premium of approximately $503,000 associated with the acquisition of these properties.

Joint Ventures and Development Projects

The following table describes our joint ventures and development projects as of December 31, 2005 (dollar amounts are in thousands):

Project	Location	Number of Buildings	Square Feet	Investment as of December 31, 2005
Development Projects:				
SouthCreek IV Distribution Facility (1)	Atlanta	1	556,800	$ 5,937
Veterans Parkway (2)	Chicago	1	189,135	8,401
Forward Purchase Commitments:				
Buford Distribution Center (3)	Atlanta	2	677,667	
Deltapoint Park (3)	Memphis	1	885,000	
Corporate Loans:				
Plainfield (4)	Plainfield,	2	1,033,566	4,290
Riverside (4)	Los Angeles	1	953,132	1,431
Goodson (4)	Atlanta	1	744,000	3,940
Total		**9**	**5,039,300**	**$ 23,999**

(1) This project is held by a joint venture with an unaffiliated third-party. Our investment in this project is included in investments in and advances to unconsolidated investees on the accompanying consolidated balance sheet for the year ended December 31, 2005.
(2) This project is held by a joint venture with an unaffiliated third-party. Our investment in this project is included in land and construction in progress on the accompanying consolidated balance sheet for the year ended December 31, 2005. In addition, this joint venture holds approximately $2.1 million of land held for development.
(3) For a description of this forward purchase commitment, see Note 15 Commitments and Contingencies.
(4) These loans were used to fund development projects. Pursuant to a strategic relationship we entered into with a third-party developer, we have committed, but have no legal obligation, to fund up to $15 million into various development projects including the Plainfield, Riverside and Goodson development projects. The principal balance of these loans is recorded as notes receivable on the accompanying consolidated balance sheets.

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note 4 Leasing Activity

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

Year ending December 31,	Amount
2006	$ 136,679
2007	124,179
2008	105,336
2009	83,506
2010	68,123
Thereafter	173,761
Total	$ 691,584

The schedule does not reflect future rental revenues from the potential renewal or replacement of existing and future leases and excludes property operating expense reimbursements. This schedule includes payments to be received under master lease agreements; however the receipt of these payments will be recorded as an adjustment to the basis of the property rather than rental revenue.

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Notes to Consolidated Financial Statements (Continued)

Note 5 Debt

Our debt consisted of the following as of December 31, 2005 and 2004 (dollar amounts are in thousands):

	Assumption/ Issuance Date	Stated Interest Rate	Adjusted Interest Rate (6)	Maturity Date	Outstanding Balance as of December 31, 2005	2004
Secured Mortgage Debt:						
New York Life	December 2003	5.00%	5.00%	March 2011	$ 39,328	$ 39,953
ING Investment Management (1)	December 2004	5.31%	5.34%	January 2015	54,994	55,000
ING Investment Management (1)	January 2005	4.40%	5.42%	January 2010	56,997	
ING Investment Management	September 2005	4.97%	4.97%	October 2013	3,926	
Assumed Secured Mortgage Debt (2):						
Principal	June 2004	7.08%	4.81%	July 2008	16,711	17,174
Principal	June 2004	7.21%	4.81%	July 2008	11,371	11,570
Prudential	June 2004	6.40%	6.09%	November 2012	12,688	12,700
Principal	November 2004	6.22%	4.18%	September 2012	3,760	3,839
Legacy	February 2005	7.40%	5.21%	December 2017	1,426	
Prudential	March 2005	5.69%	5.22%	December 2013	8,050	
State Farm	March 2005	6.72%	5.62%	November 2022	12,413	
Column Financial, Inc.	April 2005	6.30%	5.18%	September 2012	27,146	
John Hancock	April 2005	6.91%	5.25%	September 2013	6,200	
TIAA	May 2005	8.50%	4.71%	October 2008	8,072	
Fortis Benefits Insurance Co.	May 2005	7.25%	4.70%	July 2008	2,496	
ING Investment Management	June 2005	4.89%	4.73%	February 2008	19,998	
Mass Mutual	June 2005	6.79%	4.91%	July 2011	4,689	
Key Bank	July 2005	6.44%	4.72%	October 2012	7,176	
Key Bank	July 2005	6.84%	4.72%	September 2012	8,314	
Transamerica	July 2005	6.97%	4.75%	June 2013	11,388	
Bear, Stearns Funding, Inc.	December 2005	7.22%	5.16%	March 2008	6,470	
Assumed Secured Mortgage Debt of Consolidated Investments:						
Nationwide	July 2005	5.06%	5.06%	January 2011	57,494	
Nationwide	July 2005	4.72%	4.72%	April 2011	50,150	
Jackson	July 2005	5.16%	5.16%	July 2012	62,740	
Jackson	July 2005	4.91%	4.91%	April 2012	62,600	
New York Life	July 2005	4.79%	4.79%	October 2011	50,549	
New York Life	July 2005	4.90%	4.90%	October 2011	25,237	
Weighted Avg./Totals (3)		5.36%			$ 632,383	$ 140,236
Premiums, Net of Amortization (2)					9,859	2,519
Carrying Value of Debt					642,242	
			5.05%		$	$ 142,755
	December 2005	(4)	n/a	December 2008	$	$

Senior Unsecured Revolving Credit Facility						
JP Morgan						
Senior Secured Revolving Credit Facility						
JP Morgan	October 2003	(5)	7.25%	December 2008	$ 16	$ 4

(1) We assigned certain treasury lock hedging transactions to these notes. Pursuant to SFAS No. 133 (see Note 2 Summary of Significant Accounting Policies), the assigned value of these hedging instruments is being amortized to interest expense over the life of the assigned notes.

(2) These mortgages were assumed in connection with the acquisition of properties and, pursuant to SFAS No. 141 (see Note 2 Summary of Significant Accounting Policies), the difference between the fair value and the face value of these notes at the date of acquisition is reflected as a premium or discount which will be amortized to interest expense over the remaining life of the notes.

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Notes to Consolidated Financial Statements (Continued)

(3) Weighted-average interest rates are based upon outstanding balances as of December 31, 2005.
(4) Our senior unsecured revolving credit facility bears interest at either prime (7.25% at December 31, 2005) or, at our election, LIBOR plus 0.875% to 1.375%, depending upon our consolidated leverage, and has a current capacity of $250 million.
(5) Our senior secured revolving credit facility bears interest at either prime (7.25 % at December 31, 2005) or, at our election, LIBOR plus 1.25% to 1.750%, depending upon our consolidated leverage, and has a current capacity of $40 million.
(6) Reflects the impact to interest rates of GAAP adjustments for purchase price allocation and hedging transactions. These rates do not reflect the impact of other interest expense items such as fees and the amortization of loan costs.

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 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 financial covenants. As of December 31, 2005, there was no 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 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, excluding premiums, in conjunction with the acquisition of certain properties (see Note 3 Real Estate). 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, the difference between the

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

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.

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.

During the years ended December 31, 2005, 2004 and 2003, we incurred interest expense of approximately $28.7 million, 6.0 million and $385,000, respectively. We capitalized approximately $729,000 of interest in 2005 associated with certain development activities and did not capitalize any interest in 2004 or 2003. 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 financial covenants and we were in compliance with all of these covenants at December 31, 2005.

As of December 31, 2005, the scheduled maturities of our debt, excluding unamortized premiums, were as follows (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

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Notes to Consolidated Financial Statements (Continued)

Note 6 Financial Instruments and Hedging Activities

Fair Value of Financial Instruments

As of December 31, 2005 and 2004, the fair values of cash and cash equivalents, restricted cash held in escrow, notes receivable, accounts receivable and accounts payable approximated their carrying values because of the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures were determined based on available market information and valuation methodologies believed to be appropriate for these purposes. Considerable judgment and a high degree of subjectivity are involved in developing these estimates and, therefore, these estimates are not necessarily indicative of the actual amounts that we could realize upon disposition. The following table summarizes these financial instruments:

	Balances at December 31, 2005		Balances at December 31, 2004	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Borrowings:				
Senior, secured revolving credit facility	$ 16	$ 16	$ 4	$ 4
Secured mortgage debt	$ 642,242	$ 627,288	$ 142,755	$ 142,967
Interest rate contracts:				
Treasury Locks	$	$	$ (1,539)	$ (1,539)

Hedging Activities

We enter into forward treasury locks in anticipation of issuing future fixed rate debt to fund future property acquisitions. We enter into such treasury locks to hedge our exposure to interest rate variability and mitigate our exposure to the risk of increases in future payments of interest for anticipated fixed rate debt issuances over a maximum period of 12 months (excluding forecasted transactions related to the payment of variable interest on our existing senior revolving credit facility). As required by SFAS No. 133, we record all derivatives on our consolidated balance sheets at fair value until settled. These forward treasury lock hedges have been designated as cash flow hedges for accounting purposes.

As of December 31, 2005, we had entered into a total of eight cash flow hedging transactions and all of these hedges have been settled for cash. Two of the settled hedges have been attributed to fixed rate debt and the balances of such hedges are being amortized to interest expense over the life of the assigned debt and the fair value of the other six settled hedges are recorded in other comprehensive loss until the anticipated future fixed rate debt is issued, at which time such values will be amortized over the life of the debt to interest expense.

As a result of ineffectiveness primarily due to changes in our estimated debt issuance dates, during the years ended December 31, 2005 and 2004, we recorded a gain of approximately $108,000 and $545,000, respectively, and did not record a gain or loss in 2003. Amounts reported in accumulated other comprehensive loss related to cash flow hedges will be amortized to interest expense as payments are made on our anticipated future debt issuance. During the next 12 months, we estimate that approximately $644,000 will be amortized from other comprehensive loss to interest expense resulting in an increase in our interest expense.

Note 7 Public Offerings

On April 15, 2002, we filed an S-11 registration statement with the Securities and Exchange Commission covering our first public offering of our common stock. The registration statement was declared effective by the SEC on July 17, 2002 and we received approval of our offering in all 50 states in December 2002. The common

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

stock was being 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 of 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.

Our second offering began immediately following the completion of our initial offering. The second registration statement was filed on February 27, 2004, and was declared effective by the SEC on April 16, 2004. The registration statement registered 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 of 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

Our third offering began immediately following the completion of our second public offering. The third registration statement was filed on June 28, 2004, and was declared effective by the SEC on October 18, 2004. The third registration statement registered common stock 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. In June of 2005, we concluded our third public offering and sold approximately 40.7 million shares of our common stock for gross proceeds of approximately $424.7 million.

Our fourth offering began immediately following our third public offering. The fourth registration statement was filed on January 24, 2005 and was declared effective by the SEC on June 9, 2005. The registration statement covers a maximum of $1,000,000,000 in shares of our common stock to be sold, including proceeds from our distribution reinvestment plan. The registration statement offers up to 72,770,273 shares at a price of $10.50 per share and up to 23,650,339 shares to participants in our distribution reinvestment plan. As of December 31, 2005, we had sold approximately 37.8 million shares for gross proceeds of approximately $393.0 million in connection with our fourth public offering.

At the end of business on Monday, January 23, 2006, we closed the primary offering component of our fourth offering. Although we have closed the primary offering component of our public offering, we will continue to offer shares through 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.

Note 8 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 investors seeking to complete like-kind exchange transactions under Section 1031 of the Internal Revenue Code. Additionally, the tenancy-in-common interests sold to accredited investors will be 100% leased by our partnership, and such leases will contain

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Notes to Consolidated Financial Statements (Continued)

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.

Our partnership will pay certain up-front fees and reimburse certain related expenses to our advisor, the Dealer Manager and Dividend Capital Exchange Facilitators LLC (the Facilitator) for raising capital through the 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 gross equity proceeds raised and a commission of up to 5% of 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 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 SFAS No. 98 *Accounting for Leases* (SFAS No. 98). We have leased the undivided 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. In addition, the lease agreements each provide for a purchase option whereby our partnership may purchase each undivided tenancy-in-common interest after a certain period of time in exchange for limited partnership units.

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 third-party 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
Total	$ 198,621

During the years ended December 31, 2005, 2004 and 2003, our partnership incurred upfront costs of approximately $11.6 million, $2.6 million and $0.2 million payable to our advisor and other affiliates for affecting these transactions which are accounted for as deferred loan costs. Such deferred loan costs are included in other assets in the consolidated balance sheets and amortized to interest expense over the life of the financing

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obligation. If our partnership elects to exercise any purchase option as described above and issue limited partnership units, the unamortized up-front fees and expense reimbursements paid to affiliates will be recorded against shareholders equity 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 sublease 100% of the properties and will therefore not meet the definition of active use set forth in SFAS No. 98.

During the year ended December 31, 2005, our partnership exercised purchase options to buy certain tenancy-in-common interests it had previously sold in three different properties. The following table reflects certain details regarding these transactions:

Exercise Date	Property	Location	Limited Partnership Units Issued (1)	Total Value (in thousands)
04/08/2005	Chickasaw A	Memphis	424,352	$ 4,456
10/27/2005	Chickasaw H	Memphis	570,950	5,995
12/29/2005	Newpoint I	Atlanta	751,751	7,893
Total			1,747,053	$ 18,344

(1) Holders of limited partnership units will have substantially the same economic interest as our common shareholders (see Note 10 Minority Interest).

Note 9 Shareholders Equity

Preferred Shares

Our board of directors, through the articles of incorporation, has the authority to authorize the issuance of 50,000,000 preferred shares of any class or series. The rights and terms of such preferred shares will be determined by our board of directors. However, the voting rights of preferred shareholders shall never exceed the voting rights of common shareholders. As of December 31, 2005, 2004 and 2003, we had no outstanding shares of preferred stock.

Shares-in-Trust

Our board of directors, through the articles of incorporation, has the authority to authorize the issuance of shares-in-trust which are shares that are automatically exchanged for common or preferred shares as a result of an event that would cause an investor to own, beneficially or constructively, a number of shares in excess of certain limitations. As of December 31, 2005, 2004 and 2003, we had no outstanding shares-in-trust.

Common Shares

The holders of our common stock are entitled to one vote per share on all matters voted on by shareholders, including election of our directors. Our articles of incorporation do not provide for cumulative voting in the election of our directors. Therefore, the holders of the majority of the outstanding common shares can elect the entire board of directors. Subject to any preferential rights of any outstanding series of our preferred stock and to the distribution of specified amounts upon liquidation with respect to shares-in-trust, the holders of our common stock are entitled to such distributions as may be declared from time to time by our board of directors out of legally available funds and, upon liquidation, are entitled to receive all assets available for distribution to shareholders. All shares issued in our public offerings are fully paid and non-assessable shares of common stock. Holders of our common stock will not have preemptive rights. As of December 31, 2005, 2004 and 2003, we had 133,206,784, 67,719,883, and 12,470,400 shares of common stock outstanding, respectively.

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Note 10 Minority Interest

Minority interest consists of the following as of December 31, 2005 and 2004 (dollar amounts are in thousands):

	2005	2004
Limited partnership units:		
Net investment	$ 16,366	$
Distributions	(303)	
Share of net loss	(49)	
Sub-total	16,014	
Cabot limited partnership units:		
Net investment	40,314	
Distributions	(338)	
Share of net loss	(477)	
Sub-total	39,499	
Cabot non-voting common stock:		
Net investment	63	
Sub-total	63	
Limited partnership Special Units	1	1
Total	$ 55,577	$ 1

Limited Partnership Units

At December 31, 2005, we owned approximately 99% of our partnership and the remaining approximate 1% interest in our partnership was owned by unaffiliated third-party investors and our advisor. After a period of one year, limited partnership units are redeemable at the option of the unit holder. We have the option of redeeming the limited partnership units with cash or with shares of common stock. At inception (April 12, 2002), our partnership issued 20,000 limited partnership units to our advisor for gross proceeds of $200,000, which currently represents less than a 0.1% ownership interest in our partnership. In addition, as of December 31, 2005, we had issued approximately 1.7 million limited partnership units to non-affiliated limited partners in connection with our partnership s private placement (see Note 8 Our Partnership s Private Placement). During the years ended December 31, 2004 and 2003, there was no minority interest reflected on our consolidated financial statements associated with these limited partnership units as the carrying amount of such minority interest had been reduced to zero due to the allocation of our net loss of approximately $213,000 during the year ended December 31, 2002.

Cabot Limited Partnership Units

Pursuant to the Cabot merger (see Note 3 Real Estate), the unaffiliated third-party investors that were limited partners in the Cabot Partnership prior to the Cabot merger remained limited partners after the merger. As of December 31, 2005, the limited partners owned approximately 13% of the Cabot Partnership. On July 21, 2005, we entered into a Put/Call Agreement whereby we have the option to acquire the limited partners remaining 13% interest in the Cabot Partnership. Through this agreement, the remaining limited partners have an initial option to put the remaining interests to us beginning April 1, 2006 and ending July 1, 2006 and we have an initial option to call the remaining interests beginning April 1, 2007 and ending July 1, 2007. Subsequent to these initial options, the limited partners and we will continue to have put and call options to purchase or sell the

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Notes to Consolidated Financial Statements (Continued)

remaining interests and the price of such remaining interests would be based upon the fair value of such interests at the time the options are exercised. Income and losses of the Cabot Partnership are allocated pro rata based on the partners ownership interests.

Cabot Non-Voting Common Stock

In August 2005, our advisor and its affiliates acquired 126 shares of Cabot s non-voting common stock for a purchase price of $500 each or $63,000 in the aggregate. Our advisor purchased these shares on behalf of its employees and other affiliates and the proceeds from the sale of these non-voting common shares were used to invest in the Cabot Partnership. Collectively, as of December 31, 2005, these non-voting shares of common stock represent less than a 0.1% ownership of Cabot and the holders of these shares will participate in the distributions of Cabot, which are based on the performance of the Cabot portfolio of properties, in proportion to their respective ownership percentages.

Limited Partnership Special Units

During 2002, our partnership issued 10,000 Special Units to an affiliate of our advisor for consideration of $1,000. The holder of the Special Units does not participate in the profits and losses of our partnership. Amounts distributable to the holder of the Special Units will depend on operations and the amount of net sales proceeds received from property dispositions or upon other events. In general, after holders of regular partnership interests in aggregate have received cumulative distributions equal to their capital contributions plus a 7% cumulative non-compounded annual pre-tax 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.

Note 11 Stock Option Plans and Warrant Purchase Agreements

Stock Option Plans

We have adopted an independent director stock option plan which we use in an effort to attract and retain qualified independent directors (the Independent Director Option Plan). We granted non-qualified stock options to purchase 10,000 shares to each independent director pursuant to the Independent Director Option Plan upon the sale of 200,000 shares in our initial public offering. In addition, we have issued options to purchase 5,000 shares to each independent director then in office on the date of each annual shareholder s meeting. A total of 300,000 shares are authorized and reserved for issuance under the Independent Director Option Plan. Options may not be granted under the Independent Director Option Plan at any time when the grant would cause the total number of options outstanding under the Independent Director Option Plan and the Employee Option Plan (defined below) to exceed 10% of our issued and outstanding shares. The exercise price for options to be issued under the Independent Director Option Plan shall be the greater of (1) $12.00 per share or (2) the fair market value of the shares on the date they are granted. As of December 31, 2005 and 2004, we had 60,000 options outstanding under the Independent Director Option Plan and, as of December 31, 2003, we had 40,000 options outstanding.

These options were valued using the Black-Scholes option-pricing model (Black Scholes) with the following assumptions: 2005 expected dividend yield of 6.10%, risk-free interest rate of 4.190%, volatility factor of 20.01% and an expected life of 10 years; 2004 expected dividend yield of 6.40%, risk-free interest rate of 2.74%, volatility factor of 21.23% and an expected life of 10 years; 2003 expected dividend yield of 6.25%, risk free interest rate of 2.740%, volatility factor of 17.93%, and an expected life of 10 years. The value of options granted under the Independent Director Option Plan on the date of grant during 2005, 2004 and 2003 was approximately $16,000, $11,000 and $15,000. As of December 31, 2005, approximately 18,000 of these options were exercisable, and no options granted under the Independent Director Option Plan had been exercised.

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On July 19, 2005 and on January 6, 2006, respectively, we received and accepted the resignations of two independent directors of our board of directors. In connection with such resignations, the directors forfeited all 20,000 options that they had previously been awarded, effective 30 days from their resignation.

We have adopted an employee stock option plan (the Employee Option Plan). The Employee Option Plan is designed to enable us, our advisor and its affiliates to obtain or retain the services of employees (not to include any person who is an affiliate of ours as defined in the plan) considered essential to the our long-term success and the success of our advisor and its affiliates by offering such employees an opportunity to participate in our growth through ownership of the our shares. The Employee Option Plan will be administered by our compensation committee, which is authorized to grant non-qualified stock options (the Employee Options) to selected employees of our advisor and its affiliates. Employee Options may not be granted under the Employee Option Plan at any time when the grant would cause the total number of options outstanding under the Employee Option Plan and the Independent Director Option Plan to exceed 10% of the our issued and outstanding shares. The exercise price for the Employee Options shall be the greater of (1) $11.00 per share or (2) the fair market value of the shares on the date the Employee Option is granted. A total of 750,000 shares are authorized and reserved for issuance under the Employee Option Plan. The term of such employee options has been set by our compensation committee and shall not exceed the earlier of ten years from the date of grant or five years from the date of a listing of our common stock. Our compensation committee has set the period during which the right to exercise an Employee Option fully vests to three years from the date of grant. No Employee Option may be issued or exercised, however, if such issuance or exercise would jeopardize our status as a REIT under the Internal Revenue Code or otherwise violate the ownership and transfer restrictions imposed under the our articles of incorporation. In addition, no Employee Option may be sold, pledged, assigned or transferred by an employee in any manner other than by will or the laws of descent or distribution. As of December 31, 2005 and 2004, there were 107,500 options outstanding under the Employee Option Plan with a weighted average exercise price of $11.00. There were no options outstanding under the Employee Option Plan during 2003.

These options were valued using Black-Scholes with the following assumptions: expected dividend yield of 6.10%, risk-free interest rate of 2.74%, volatility factor of 19.42% and an expected life of 10 years. The value of options granted under the Employee Option Plan on the date of grant during 2004 was approximately $61,000. As of December 31, 2005, approximately 35,800 of these options were exercisable and no options granted under the Employee Option Plan had been exercised or forfeited.

Options granted under both the Independent Director Option Plan and the Employee Option Plan are valued using the Black-Scholes option-pricing model and are amortized to salary expense on a straight-line basis over the period during which the right to exercise such options fully vests. For the years ended December 31, 2005, 2004 and 2003, we incurred $29,167, $5,892 and $2,781 of such expense which is included in general and administrative expense on the accompanying consolidated statements of operations.

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Notes to Consolidated Financial Statements (Continued)

The following table describes all options issued and outstanding as of December 31, 2005, 2004 and 2003, as well as the option grants, exercises and expirations that occurred during 2005 and 2004.

	Independent Director Options	Employee Options
Issued and Outstanding at 12/31/03	40,000	
Grants	20,000	107,500
Exercises		
Expirations		
Issued and Outstanding at 12/31/04	60,000	107,500
Grants	20,000	
Exercises		
Expirations	(20,000)	
Issued and Outstanding at 12/31/05	60,000	107,500

Warrant Purchase Agreements

Pursuant to our first and second public offerings, the Dealer Manager earned one soliciting dealer warrant for every 25 shares sold (see Note 13 Related Party Transactions). These warrants, as well as the shares issuable upon their exercise, were registered in connection with our first and second public offerings (see Note 7 Public Offerings). In September 2005, our board of directors approved and we issued approximately 2.2 million soliciting dealer warrants to the Dealer Manager representing all of the warrants the Dealer Manager earned in connection with both of the aforementioned offerings. Pursuant to SFAS No. 123, we valued these warrants using the Black-Scholes option-pricing model, and based on our historical volatility, these warrants had a nominal value. The Dealer Manager may retain or re-allow these warrants to broker-dealers participating in the offering, unless such issuance of soliciting dealer warrants is prohibited by either federal or state securities laws. The holder of a soliciting dealer warrant is entitled to purchase one share of common stock from us at a price of $12 per share beginning on the first anniversary of the effective date of the offering in which such warrants are issued and ending five years after the effective date of such offering. Subject to certain exceptions, a soliciting dealer warrant may not be transferred, assigned, pledged or hypothecated for a period of one year following the effective date of the relevant public offering. Exercise of the soliciting dealer warrants is governed by the terms and conditions detailed in the warrant purchase agreement.

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Note 12 Distributions

Our board of directors declares the following quarter s annualized distribution before the first day of the quarter. We calculate our distributions based upon daily record and distribution declaration dates so investors will be eligible to earn distributions immediately upon purchasing shares of our common stock or upon purchasing limited partnership units of our partnership. We accrue 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
2nd Quarter 2003	$ 0.1558	$ 0.625	July 15, 2003
3rd Quarter 2003	$ 0.1575	$ 0.625	October 15, 2003
4th Quarter 2003	$ 0.1575	$ 0.625	January 15, 2004
1st Quarter 2004	$ 0.1591	$ 0.640	April 15, 2004
2nd Quarter 2004	$ 0.1591	$ 0.640	July 15, 2004
3rd Quarter 2004	$ 0.1609	$ 0.640	October 15, 2004
4th Quarter 2004	$ 0.1609	$ 0.640	January 18, 2005
1st Quarter 2005	$ 0.1578	$ 0.640	April 15, 2005
2nd Quarter 2005	$ 0.1596	$ 0.640	July 15, 2005
3rd Quarter 2005	$ 0.1613	$ 0.640	October 17, 2005
4th Quarter 2005	$ 0.1613	$ 0.640	January 17, 2006
1st Quarter 2006	$ 0.1578	$ 0.640	April 17, 2006(2)

(1) Assumes share or 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 a non-taxable return of capital. Distributions that exceed our current and accumulated earnings and profits (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. To the extent that a distribution exceeds both current and accumulated earnings and profits and the shareholders basis in the common shares, it will generally be treated as a gain from the sale or exchange of that shareholder s 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:

Per Common Share:	2005 Per Share Amount	2005 Percentage	2004 Per Share Amount	2004 Percentage	2003 Per Share Amount	2003 Percentage
Ordinary Income	$ 0.408	63.80%	$ 0.378	59.10%	$ 0.249	39.80%
Return of Capital	0.232	36.20%	0.262	40.90%	0.376	60.20%
Total	$ 0.640	100.00%	$ 0.640	100.00%	$ 0.625	100.00%

Note 13 Related Party Transactions

Our Advisor

Our day-to-day activities are managed by our advisor, an affiliate, under the terms and conditions of an advisory agreement. Our advisor is considered a related party as certain indirect owners and employees of our advisor serve as our executives. The responsibilities of our advisor include the selection of our investment properties, the negotiations for these investments and the property management and leasing of these properties.

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

We have entered into an advisory agreement with our advisor pursuant to which we pay certain acquisition and asset management fees to our advisor. The amount of such acquisition fees was previously equal to 3% of the aggregate purchase price of all properties we acquired up to a cumulative purchase price of $170 million. In March 2004, we reached the cumulative threshold of $170 million in properties and all subsequent acquisitions have been and will continue to be subject to a reduced acquisition fee of 1.0%. During the years ended December 31, 2005, 2004 and 2003, our advisor earned approximately $11.1 million, $6.4 million and $4.4 million, respectively, for acquisition fees which are accounted for as part of the historical cost of the acquired properties.

We pay our advisor an asset management fee equal to 0.75% per annum of the total undepreciated cost of the properties we own in excess of $170 million. During the years ended December 31, 2005 and 2004, we incurred asset management fees of $8.9 million and $1.5 million, respectively. No asset management fees were paid in 2003 as we had not exceeded the aforementioned threshold of $170 million.

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 aggregate gross offering proceeds raised in our public offerings of common stock. 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.

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 approximately $8.6 million, $8.3 million, $7.7 million and $3.4 million, respectively, of offering costs. 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, for such costs. These costs are reflected in equity as offering costs when such reimbursement obligations are incurred. 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 in Note 7 Public Offerings, 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.

Our advisor is obligated to pay all of the offering and marketing related costs associated with our partnership s 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 our partnership s private placement. During the years ended December 31, 2005, 2004 and 2003, our partnership incurred approximately $2.3 million, $521,000 and $54,000, respectively, payable to our advisor for such expense allowance.

In accordance with the advisory agreement we are obligated, subject to certain limitations, to reimburse our advisor for certain other expenses incurred on our behalf for providing services contemplated in the advisory agreement, provided that our advisor does not receive a specific fee for the activities which generate the expenses to be reimbursed. For the years ended December 31, 2005, 2004 and 2003, we have reimbursed approximately $511,000, $327,000 and $96,000, respectively, for such costs.

As of December 31, 2005 and 2004, we owed our advisor approximately $624,000 and $576,000 respectively, for various fees and reimbursements as described above which is included in other liabilities on the accompanying consolidated balance sheets.

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Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The Dealer Manager

Our public and private offerings are managed by the Dealer Manager under the terms of certain dealer manager agreements. Our Dealer Manager is considered a related party as certain indirect owners and employees of the Dealer Manager serve as our executives.

We have entered into a Dealer Manager Agreement with the Dealer Manager pursuant to which we pay a dealer manager fee of up to 2.0% of gross offering proceeds raised pursuant to our public offerings of common stock to the Dealer Manager as compensation for managing the offering. The Dealer Manager may re-allow a portion of such fees to broker-dealers who participate in the offering. We also pay up to a 6% sales commission of gross offering proceeds raised pursuant to our public offerings of common stock. As of December 31, 2005, all sales commissions had been re-allowed to participating broker-dealers. For the years ended December 31, 2005, 2004 and 2003, we incurred approximately $49.9 million, $42.5 million and $11.2 million, respectively, payable to the Dealer Manager for dealer manager fees and sales commissions. Such amounts are considered a cost of raising capital and as such are included as a reduction of additional paid-in capital on the accompanying consolidated balance sheets.

We have also entered into a dealer manager agreement with the Dealer Manager pursuant to which we pay a dealer manager fee of up to 1.5% of the gross equity proceeds raised through our partnership s private placement. We also pay the Dealer Manager a sales commission of up to 5.0% of the gross equity proceeds raised through our partnership s private placement. As of December 31, 2005, substantially all of the sales commissions were re-allowed to participating broker-dealers who are responsible for affecting sales. For the years ended December 31, 2005, 2004 and 2003, we incurred up front fees of approximately $7.6 million, $1.7 million and $175,000, respectively, payable to the Dealer Manager for dealer manager fees and sales commissions. Such amounts are included in deferred loan costs on the accompanying consolidated balance sheets.

Pursuant to our first and second public offerings, the Dealer Manager earned one soliciting dealer warrant for every 25 shares sold. The holder of a soliciting dealer warrant has the right to purchase one share of common stock for $12. In September 2005, our board of directors approved and we issued approximately 2.2 million soliciting dealer warrants to the Dealer Manager representing all of the warrants the Dealer Manager earned in connection with our first and second public offerings. Pursuant to SFAS No. 123, we valued these warrants using the Black-Scholes option-pricing model, and based on our historical volatility, these warrants had a nominal value. No warrants were offered in our third or fourth public offering. During the year ended December 31, 2005, the Dealer Manager did not earn any soliciting dealer warrants as all shares sold during such period were in connection with our third and fourth public offerings (see Note 7 Public Offerings).

As of December 31, 2005 and 2004, we owed the Dealer Manager approximately $1.4 million and $828,000, respectively, in relation to the fees described above which is included in other liabilities on the accompanying consolidated balance sheets.

The Facilitator

The Facilitator is responsible for the facilitation of transactions associated with our partnership s private placement. The Facilitator is considered a related party as certain indirect owners and employees of the Facilitator serve as our executives. We have entered into an agreement with the Facilitator whereby we pay a transaction facilitation fee associated with our partnership s private placement. We pay the Facilitator up to 1.5% of the gross equity proceeds raised through our partnership s private placement for transaction facilitation. For the years ended December 31, 2005, 2004 and 2003, we incurred approximately $1.8 million, $379,000 and $41,000, respectively, payable to the Facilitator for such fees. In accordance with SFAS No. 98, these fees, as well as the other fees associated with our partnership s private placement, are recorded as deferred loan costs and amortized over the life of the financing obligation (see Note 8 Our Partnership s Private Placement).

Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note 14 Income Taxes

During 2005, we operated and expect to continue to operate in a manner to meet all the requirements to qualify for REIT status. We have made our REIT election under Internal Revenue Code Section 856 for the taxable year ended December 31, 2003. In order for a former C corporation to elect to be a REIT, it must distribute 100% of its C corporation earnings and profits and agree to be subject to federal tax at the corporate level to the extent of any subsequently recognized built-in gains within a ten year period. We did not have any built-in gains at the time of our conversion to REIT status. As a REIT, we generally will not be subject to federal income taxation at the corporate level to the extent we distribute 100% of our REIT taxable income annually, as defined in the Internal Revenue Code, to our shareholders and satisfy other requirements. To continue to qualify as a REIT for federal tax purposes, we must distribute at least 90% of our REIT taxable income annually. No material provisions have been made for federal income taxes in the accompanying consolidated financial statements.

Note 15 Commitments and Contingencies

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.

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.

Note 16 Subsequent Events

Closing of Our Fourth Public Offering

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

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Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Contribution of Properties to Institutional Fund

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 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 members. 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.

Note 17 Quarterly Results (Unaudited)

The following table presents selected unaudited quarterly financial data for each quarter during the year ended December 31, 2005 (amounts in thousands except per share information):

	For the Quarter Ended				For the Year Ended
	March 31, 2005	June 30, 2005	September 30, 2005	December 31, 2005	December 31, 2005
Rental revenue	$ 19,548	$ 23,498	$ 36,533	$ 42,219	$ 121,798
Other income	664	3,856	311	1,295	6,126
Total revenue	20,212	27,354	36,844	43,514	127,924
Rental expense	2,383	2,467	3,892	4,713	13,455
Real estate taxes	2,435	2,892	4,644	5,344	15,315
Depreciation and amortization	12,350	14,192	21,178	23,303	71,023
Interest expense	3,718	4,827	9,813	10,354	28,712
General and administrative expense	728	701	865	710	3,004
Asset management fees, related party	1,179	1,524	2,937	3,261	8,901
Net income (loss) before minority interest	(2,581)	751	(6,485)	(4,171)	(12,486)
Minority interest		3	(287)	(242)	(526)
Net income (loss)	$ (2,581)	$ 748	$ (6,198)	$ (3,929)	$ (11,960)
Earnings (loss) per common share:					
Basic and diluted	$ (0.03)	$ 0.01	$ (0.06)	$ (0.03)	$ (0.12)
Basic common shares outstanding	74,401	88,066	104,224	121,097	97,333
Diluted common shares outstanding	74,421	88,473	104,668	121,975	97,774

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Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The following table presents selected unaudited quarterly financial data for each quarter during the year ended December 31, 2004 (amounts in thousands except per share information):

	For the Quarter Ended				For the Year Ended
	March 31, 2004	June 30, 2004	September 30, 2004	December 31, 2004	December 31, 2004
Rental revenue	$ 3,582	$ 5,506	$ 8,935	$ 16,654	$ 34,677
Other income	13	228	933	247	1,421
Total revenue	3,595	5,734	9,868	16,901	36,098
Rental expense	401	490	850	1,634	3,375
Real estate taxes	397	626	950	1,857	3,830
Depreciation and amortization	1,646	2,765	4,888	9,974	19,273
Interest expense	651	894	1,650	2,783	5,978
General and administrative expense	328	311	1,026	707	2,372
Asset management fees, related party		145	398	982	1,525
Net income (loss)	$ 172	$ 503	$ 106	$ (1,036)	$ (255)
Earnings (loss) per common share:					
Basic and diluted	$ 0.01	$ 0.02	$ 0.00	$ (0.02)	$ (0.01)
Basic common shares outstanding	16,580	29,536	44,670	60,517	37,908
Diluted common shares outstanding	16,600	29,556	44,690	60,537	37,928

The following table presents selected unaudited quarterly financial data for each quarter during the period ended December 31, 2003 (amounts in thousands except per share information):

	For the Quarter Ended				For the Year Ended
	March 31, 2003	June 30, 2003	September 30, 2003	December 31, 2003	December 31, 2003
Rental revenue	$	$ 118	$ 842	$ 1,685	$ 2,645
Other income	1	39	11	10	61
Total revenue	1	157	853	1,695	2,706
Rental expense			38	98	136
Real estate taxes			51	180	231
Depreciation and amortization		69	360	766	1,195

Interest expense		26	138	221	385
General and administrative expense	73	33	118	188	412
Asset management fees, related party					
Net income (loss)	$ (72)	$ 29	$ 148	$ 242	$ 347
Earnings (loss) per common share:					
Basic and diluted	$ (0.27)	$ 0.02	$ 0.03	$ 0.03	$ 0.09
Basic common shares outstanding	261	1,809	4,393	9,357	3,987
Diluted common shares outstanding	261	1,829	4,413	9,377	4,007

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Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

Note 18 Segment Information

We consider each operating property to be an individual operating segment that has similar economic characteristics with all our other operating properties and we combine our operating segments into reportable segments based upon their geographic location or market. For purposes of this disclosure, we report the revenue of our largest reportable market segments on an individual basis until the aggregate revenue of such individually reported market segments equals at least 75% of our total revenues and then aggregate all remaining reportable market segments into one category, Other Markets. These other markets include Baltimore, Boston, Charlotte, Columbus, Denver, Harrisburg/Lehigh Valley, Indianapolis, Louisville, Miami, New Jersey, Orlando, San Antonio, San Francisco and Seattle. The following table sets forth the rental revenues and property net operating income of our market segments for the years ended December 31, 2005, 2004 and 2003 (dollar amounts are in thousands).

	Rental Revenues			Property NOI(1)		
Segments	**2005**	**2004**	**2003**	**2005**	**2004**	**2003**
Atlanta	$ 16,143	$ 4,522	$	$ 12,282	$ 3,658	$
Chicago	7,891	1,033	181	6,488	1,025	178
Cincinnati	8,942	5,323	114	7,356	4,488	105
Dallas	15,872	4,926	154	11,017	3,376	116
Houston	11,359	4,374	105	7,830	3,161	44
Los Angeles	4,700	1,185	129	3,409	929	92
Memphis	14,285	2,850	761	11,907	2,269	545
Nashville	5,738	4,318	1,138	5,076	3,908	1,135
Phoenix	8,550	1,757		5,770	1,244	
Other Markets	28,318	4,389	63	21,893	3,414	63
Total	$ 121,798	$ 34,677	$ 2,645	$ 93,028	$ 27,472	$ 2,278

(1) Net operating income (NOI) is defined as rental revenue, including reimbursements, less property operating expenses, which excludes depreciation, amortization, general and administrative expense and interest expense.

We consider NOI to be an appropriate supplemental performance measure because NOI reflects the operating performance of our properties and excludes certain items that are not considered to be controllable in connection with the management of the property such as depreciation, interest expense, interest income and general and administrative expenses. However, NOI should not be viewed as an alternative measure of our financial performance as a whole since it does exclude such expenses which could materially impact our results of operations. Further, our NOI may not be comparable to that of other real estate companies, as they may use different methodologies for calculating NOI. Therefore, we believe net income, as defined by GAAP, to be the most appropriate measure to evaluate our overall financial performance. The following table is a reconciliation of our NOI to our reported net income (dollar amounts are in thousands):

	2005	**2004**	**2003**
Property NOI	$ 93,028	$ 27,472	$ 2,278
Interest and other real estate income	6,126	1,421	61
Depreciation and amortization expense	(71,023)	(19,273)	(1,195)
Interest expense	(28,712)	(5,978)	(385)
General and administrative expense	(3,004)	(2,372)	(412)
Asset management fees, related-party	(8,901)	(1,525)	
Minority interest	526		

Net income (loss)	$ (11,960)	$ (255)	$ 347

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Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

The following table reflects our total assets by market segment (dollar amounts are in thousands).

	Total Assets as of December 31, 2005	2004
Market segments:		
Atlanta	$ 252,701	$ 146,261
Chicago	177,765	11,160
Cincinnati	117,381	76,605
Dallas	240,861	90,762
Houston	122,068	82,313
Los Angeles	82,547	32,095
Memphis	178,371	38,420
Nashville	76,256	57,873
Phoenix	84,820	80,263
Other markets	589,943	128,073
Total segment assets	1,922,713	743,825
Non-segment assets:		
Cash and cash equivalents	84,771	16,119
Other non-segment assets(1)	50,211	24,864
Total assets	$ 2,057,695	$ 784,808

(1) Other non-segment assets primarily consists of corporate assets including investments in unconsolidated joint ventures, notes receivable, certain loan costs, including loan costs associates with our financing obligations and deferred acquisition costs.

Note 19 Pro Forma Financial Information (Unaudited)

During the years ended December 31, 2005 and 2004, we acquired 251 properties, for a total investment of approximately $1.8 billion. The following unaudited pro forma information for the years ended December 31, 2005 and 2004 have been prepared to reflect the incremental effect of the acquisition of properties during 2005 and 2004 by us as if such transactions and adjustments had occurred on January 1, 2004, and were carried forward through December 31, 2005. As these acquisitions are assumed to have been made on January 1, 2004 the shares outstanding as of December 31, 2005 are assumed to have been sold and outstanding as of January 1, 2004 for purposes of calculating per share information (dollar amounts in thousands except per share information).

	2005	2004
Revenue	$ 182,392	$ 164,248
Depreciation and amortization	$ 92,081	$ 93,134
Net loss	$ (7,742)	$ (17,828)
Loss per share basic and diluted	$ (0.06)	$ (0.13)
Shares outstanding:		
Basic	133,206,784	133,206,784
Diluted	134,973,837	134,973,837

During the years ended December 31, 2004 and 2003, we acquired 106 properties, for a total investment of approximately $754.1 million. The following unaudited pro forma information for the years ended December 31, 2004 and 2003 have been prepared to reflect the incremental effect of the acquisition of properties during 2004 and 2003 by us as if such transactions and adjustments had occurred on January 1, 2003, and were

carried

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Dividend Capital Trust Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

forward through December 31, 2004. As these acquisitions are assumed to have been made on January 1, 2003, the shares outstanding as of December 31, 2004 are assumed to have been sold as of January 1, 2003 for purposes of calculating per share information (dollar amounts in thousands except per share information).

	2004	2003
Revenue	$ 70,432	$ 53,071
Depreciation and amortization	$ 50,862	$ 47,875
Net loss	$ (11,273)	$ (16,966)
Loss per share basic and diluted	$ (0.17)	$ (0.25)
Shares outstanding:		
Basic	67,719,883	67,719,883
Diluted	67,739,883	67,739,883

This information is presented for illustrative purposes only and is not indicative of the results that actually would have occurred if the acquisitions had been in effect on the dates indicated or which may be obtained in the future.

Note 20 Net Income (Loss) per Common Share

Reconciliations of the numerator and denominator used to calculate basic net income (loss) per common share to the numerator and denominator used to calculate diluted net income (loss) per common share for the years ended December 31, 2005, 2004 and 2003 are as follows:

	2005	2004	2003
Net income (loss)	$ (11,960)	$ (255)	$ 347
Minority interest share in net loss	(49)		
Adjusted net income (loss)	$ (12,009)	$ (255)	$ 347
Weighted average common shares outstanding-Basic	97,333	37,908	3,987
Incremental weighted average effect of conversion of limited partnership units	441	20	20
Weighted average common shares outstanding-Diluted	97,774	37,928	4,007
Net income (loss) attributable per common share-Basic	$ (0.12)	$ (0.01)	$ 0.09
Net income (loss) attributable per common share-Diluted	$ (0.12)	$ (0.01)	$ 0.09

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Dividend Capital Trust Inc.:

Under date of March 7, 2006, we reported on the consolidated balance sheets of Dividend Capital Trust Inc. and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders equity (deficit) and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2005. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule, Schedule III Real Estate and Accumulated Depreciation (Schedule III). Schedule III is the responsibility of the Company s management. Our responsibility is to express an opinion on Schedule III based on our audits.

In our opinion, Schedule III Real Estate and Accumulated Depreciation, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

Denver, Colorado

March 7, 2006

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2005

(dollars in thousands)

			Initial Cost to Company			Costs Capitalized	Gross Amount Carried at 12/31/2005				
Property	No. of Bldgs	Encumbrances (5)	Land	Building & Improvements (1)	Total Costs	Subsequent to Acquisition	Land	Building & Improvements (1)	Total Costs (3)(4)(6)	Accumulated Depreciation (6)	
Newpoint I	1		2,143	12,908	15,051	42	2,143	12,950	15,093	(1,194)	
Southcreek	3	9,357	5,338	31,640	36,978	(714)(2)	5,338	30,926	36,264	(2,244)	6/8/
Eagles Landing	1	20,942	2,595	13,475	16,070	131	2,595	13,606	16,201	(1,288)	
Buford Industrial	1		1,475	7,021	8,496	153	1,475	7,174	8,649	(703)	
Breckinridge Industrial	2		1,950	10,159	12,109	133	1,950	10,292	12,242	(1,697)	
Westgate Industrial	1		2,140	4,801	6,941	86	2,140	4,887	7,027	(1,261)	
Westpark Industrial	2		2,176	6,719	8,895	336	2,176	7,055	9,231	(463)	
Cobb Industrial	2		1,120	5,249	6,369	74	1,120	5,323	6,443	(499)	
Cabot Parkway Industrial	2		2,275	13,982	16,257	(1,204)(2)	2,275	12,778	15,053	(1,074)	
Atlanta NE Portolio	2		2,817	14,892	17,709	107	2,817	14,999	17,816	(1,312)	
Lotus Cars USA	1		1,029	2,103	3,132		1,029	2,103	3,132	(154)	
Fulton Industrial Boulevard	3	7,450	1,850	13,480	15,330	113	1,850	13,593	15,443	(343)	
Penney Road	1	2,017	401	4,145	4,546	10	401	4,155	4,556	(83)	
Southfield Parkway	1	2,560	523	3,808	4,331	1	523	3,809	4,332	(88)	
Livingston Court	3	5,410	1,194	8,475	9,669	9	1,194	8,484	9,678	(246)	
Peterson Place	5	4,212	739	8,050	8,789	19	739	8,069	8,808	(199)	
Oakbrook Parkway	5	9,607	1,823	17,185	19,008	72	1,823	17,257	19,080	(396)	
Regency Parkway	7	9,433	1,521	16,084	17,605	409	1,521	16,493	18,014	(404)	
Jimmy Carter Boulevard	2	3,182	488	5,159	5,647	204	488	5,363	5,851	(151)	
McGinnis Ferry Road	1	4,165	700	6,855	7,555	2	700	6,857	7,557	(213)	
South Royal Atlanta Drive	1	1,000	174	1,896	2,070		174	1,896	2,070	(44)	
Interstate South	1		2,396	18,620	21,016	45	2,396	18,665	21,061	(234)	
TOTAL ATLANTA MARKET	**48**	**79,335**	**36,867**	**226,706**	**263,573**	**28**	**36,867**	**226,734**	**263,601**	**(14,290)**	
Delta Portfolio	7	27,146	8,762	36,806	45,568	297	8,762	37,103	45,865	(1,670)	

Charwood Road	1	5,296	1,960	10,261	12,221		1,960	10,261	12,221	(217)
Greenwood Place	1	5,260	1,596	7,844	9,440	236	1,596	8,080	9,676	(183)
Coca Cola Drive	1		4,290	25,371	29,661		4,290	25,371	29,661	(181)
TOTAL BALTIMORE MARKET	**10**	**37,702**	**16,608**	**80,282**	**96,890**	**533**	**16,608**	**80,815**	**97,423**	**(2,251)**
Progress Industrial	2		2,570	5,933	8,503	258	2,570	6,191	8,761	(696)
South Industrial	1		1,125	2,805	3,930	166	1,125	2,971	4,096	(74)
Technology Industrial	1		941	2,606	3,547	31	941	2,637	3,578	(389)
Sunnyslope Industrial	1		3,626	7,616	11,242	65	3,626	7,681	11,307	(968)
Wildwood Avenue	1	10,320	2,653	11,771	14,424	6	2,653	11,777	14,430	(288)
TOTAL BOSTON MARKET	**6**	**10,320**	**10,915**	**30,731**	**41,646**	**526**	**10,915**	**31,257**	**42,172**	**(2,415)**
Nevada Boulevard	1	3,023	1,360	4,840	6,200		1,360	4,840	6,200	(123)
Barringer Drive	1	1,760	507	4,549	5,056	(123)(2)	507	4,426	4,933	(106)

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

December 31, 2005

(dollars in thousands)

			Initial Cost to Company			Costs Capitalized	Gross Amount Carried at 12/31/2005			
Property	**No. of Bldgs**	**Encumbrances (5)**	**Land**	**Building & Improvements (1)**	**Total Costs**	**Subsequent to Acquisition**	**Land**	**Building & Improvements (1)**	**Total Costs (3)(4)(6)**	**Accumulat Depreciati (6)**
Nations Ford Road	1	2,840	1,603	5,277	6,880		1,603	5,277	6,880	(1
Empire Distribution Center	1		622	3,655	4,277		622	3,655	4,277	(
TOTAL CHARLOTTE MARKET	**4**	**7,623**	**4,092**	**18,321**	**22,413**	**(123)**	**4,092**	**18,198**	**22,290**	**(3**
Mallard Lake	1		2,561	8,809	11,370		2,561	8,809	11,370	(7
Wickes Distribution Center	1	11,399	3,191	18,505	21,696	30	3,191	18,535	21,726	(1,3
Blackhawk Portfolio	5	19,998	6,671	40,877	47,548	534	6,671	41,411	48,082	(1,1
East Fabyan Parkway	1	5,230	1,790	10,929	12,719	31	1,790	10,960	12,750	(3
Frontenac Road	1	3,920	1,647	5,849	7,496	26	1,647	5,875	7,522	(1
South Wolf Road	1	9,175	4,836	18,794	23,630	202	4,836	18,996	23,832	(4
Laramie Avenue	1	4,870	1,442	7,985	9,427	26	1,442	8,011	9,453	(2
West 123rd Place	1	2,875	644	5,935	6,579	20	644	5,955	6,599	(1
Stern Avenue	1	2,560	505	4,947	5,452	4	505	4,951	5,456	(1
McCook Industrial Center	1		5,541	17,601	23,142	(93)(2)	5,541	17,508	23,049	(
TOTAL CHICAGO MARKET	**14**	**60,027**	**28,828**	**140,231**	**169,059**	**780**	**28,828**	**141,011**	**169,839**	**(4,8**
Park West	6	43,550	10,441	63,682	74,123	163	10,441	63,845	74,286	(6,5
Northwest Business Center	1		299	4,486	4,785	39	299	4,525	4,824	(1,1
New Buffington Road	2	4,100	1,618	8,500	10,118	307	1,618	8,807	10,425	(1
Olympic Boulevard	3	7,350	2,096	11,788	13,884	221	2,096	12,009	14,105	(2
Mineola Pike	1	2,653	625	4,642	5,267		625	4,642	5,267	(1
Industrial Road	2	2,740	629	3,344	3,973	56	629	3,400	4,029	(
Dolwick Drive	1	2,857	579	4,670	5,249	31	579	4,701	5,280	(1
Best Place	1	3,540	1,131	5,516	6,647	6	1,131	5,522	6,653	(1
Distribution Circle	1	3,200	688	6,838	7,526	196	688	7,034	7,722	(1
TOTAL CINCINNATI MARKET	**18**	**69,990**	**18,106**	**113,466**	**131,572**	**1,019**	**18,106**	**114,485**	**132,591**	**(8,7**
Commodity Boulevard	2	20,849	3,891	36,799	40,690	737	3,891	37,536	41,427	(8
Industrial Drive	1	4,350	683	7,136	7,819		683	7,136	7,819	(1
TOTAL COLUMBUS MARKET	**3**	**25,199**	**4,574**	**43,935**	**48,509**	**737**	**4,574**	**44,672**	**49,246**	**(9**
DFW H	1	6,642	981	10,392	11,373	(105)(2)	981	10,287	11,268	(1,4
Pinnacle	2	17,218	1,588	27,853	29,441	(231)(2)	1,588	27,622	29,210	(2,9
Market Industrial	5		1,481	15,507	16,988	358	1,481	15,865	17,346	(1,8

Shiloh Industrial	2	878	5,957	6,835	662	878	6,619	7,497	(9
Perimeter Industrial	2	261	2,901	3,162	54	261	2,955	3,216	(3
Avenue R Industrial I	1	189	2,231	2,420	115	189	2,346	2,535	(3

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

December 31, 2005

(dollars in thousands)

			Initial Cost to Company			Costs Capitalized	Gross Amount Carried at 12/31/2005			
Property	No. of Bldgs	Encumbrances (5)	Land	Building & Improvements (1)	Total Costs	Subsequent to Acquisition	Land	Building & Improvements (1)	Total Costs (3)(4)(6)	Accumul Deprecia (6)
Avenue R Industrial II	1		271	1,139	1,410	455	271	1,594	1,865	(
Westfork Center Industrial	3		503	5,977	6,480	122	503	6,099	6,602	(
Coasters Distribution Center	1		1,380	14,504	15,884	(27)(2)	1,380	14,477	15,857	(1
Diplomat Drive	1	2,496	532	3,136	3,668	13	532	3,149	3,681	(
North 28th Street	1	3,254		6,145	6,145	11		6,156	6,156	(
Esters Boulevard	5	27,393	2,428	50,618	53,046	243	2,428	50,861	53,289	(1
Royal Lane	1	1,918		3,200	3,200	7		3,207	3,207	(
North Stemmons Freeway	1	2,400	585	2,576	3,161	221	585	2,797	3,382	
West Story Drive	1	2,700	777	4,646	5,423	108	777	4,754	5,531	(
Meridian Drive	1	2,535	410	4,135	4,545	128	410	4,263	4,673	(
Gateway Drive	1	1,472	463	2,152	2,615	233	463	2,385	2,848	
Valwood Parkway	3	8,875	2,271	15,351	17,622	329	2,271	15,680	17,951	(
108th Street	1	460	83	899	982	7	83	906	989	
Sanden Drive	1	1,138	207	2,258	2,465	1	207	2,259	2,466	
North Great Southwest Parkway	2	2,925	1,384	3,727	5,111	82	1,384	3,809	5,193	(
Webb Chapel Road	1	514	110	732	842	12	110	744	854	
Belt Line Road	6	4,766	1,167	7,811	8,978	256	1,167	8,067	9,234	(
Springlake Road	2	2,720	534	4,457	4,991	476	534	4,933	5,467	(
Hurd Drive	1	1,760	420	2,332	2,752	23	420	2,355	2,775	
Champion Drive	1	1,660	672	2,598	3,270	72	672	2,670	3,342	
Clorox Distribution Center	1		3,283	20,847	24,130		3,283	20,847	24,130	(
TOTAL DALLAS MARKET	**49**	**92,846**	**22,858**	**224,081**	**246,939**	**3,625**	**22,858**	**227,706**	**250,564**	**(13**
Interpark 70	1	5,359	1,383	7,566	8,949	78	1,383	7,644	9,027	(1
TOTAL DENVER MARKET	**1**	**5,359**	**1,383**	**7,566**	**8,949**	**78**	**1,383**	**7,644**	**9,027**	**(1**
Iron Run Corporate Center	1		1,531	3,632	5,163	219	1,531	3,851	5,382	(
Binney & Smith	1	11,388	5,183	20,100	25,283		5,183	20,100	25,283	(
High Street Portfolio	3		4,853	10,334	15,187		4,853	10,334	15,187	(
TOTAL HARRISBURG/ LEHIGH VALLEY MARKET	**5**	**11,388**	**11,567**	**34,066**	**45,633**	**219**	**11,567**	**34,285**	**45,852**	**(**
West by Northwest	1		1,033	7,564	8,597		1,033	7,564	8,597	(
Bondesen Business. Park	7		1,007	23,370	24,377	(564)(2)	1,007	22,806	23,813	(2
Beltway 8 Business Park	7		1,679	25,565	27,244	(315)(2)	1,679	25,250	26,929	(2
Corporate Industrial	2		613	3,989	4,602	(59)(2)	613	3,930	4,543	(
Reed Industrial	1		568	6,331	6,899	403	568	6,734	7,302	(

Julie Rivers Industrial	2	272	3,123	3,395	33	272	3,156	3,428	(
Wynwood Industrial	1	180	1,634	1,814	34	180	1,668	1,848	(

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

December 31, 2005

(dollars in thousands)

			Initial Cost to Company			Costs Capitalized	Gross Amount Carried at 12/31/2005			
Property	**No. of Bldgs**	**Encumbrances (5)**	**Land**	**Building & Improvements (1)**	**Total Costs**	**Subsequent to Acquisition**	**Land**	**Building & Improvements (1)**	**Total Costs (3)(4)(6)**	**Accumula Deprecia (6)**
Wynpark Industrial	1		154	1,404	1,558	36	154	1,440	1,594	(
Siber Industrial	1		742	4,644	5,386	21	742	4,665	5,407	(
Greenbriar Industrial	1		1,200	7,998	9,198	(67)(2)	1,200	7,931	9,131	(
Greens Crossing	3	7,176	1,225	10,202	11,427		1,225	10,202	11,427	(
Willowbrook	4	8,314	1,274	12,842	14,116	25	1,274	12,867	14,141	(
Gateway at Central Green	2		1,079	9,929	11,008	112	1,079	10,041	11,120	(
TOTAL HOUSTON MARKET	**33**	**15,490**	**11,026**	**118,595**	**129,621**	**(341)**	**11,026**	**118,254**	**129,280**	**(10,**
Plainfield I	1		1,394	14,269	15,663	(457)(2)	1,394	13,812	15,206	(1,
Handleman Building	1		2,200	11,239	13,439		2,200	11,239	13,439	
Whirlpool Airwest	1		3,817	24,777	28,594		3,817	24,777	28,594	
TOTAL INDIANA MARKET	**3**		**7,411**	**50,285**	**57,696**	**(457)**	**7,411**	**49,828**	**57,239**	**(1,**
Foothill Business Center	3		13,315	9,112	22,427	302	13,315	9,414	22,729	(1,
Rancho Technology Park	1		2,790	7,048	9,838	479	2,790	7,527	10,317	(1,
East Slauson Avenue	3	12,127	5,499	14,775	20,274	138	5,499	14,913	20,412	(
Airport Circle	1	5,490	3,098	8,368	11,466		3,098	8,368	11,466	(
Cota Street	1	4,453	2,802	7,624	10,426	583	2,802	8,207	11,009	(
Twin Oaks Valley Road	2	3,998	1,815	7,855	9,670		1,815	7,855	9,670	(
TOTAL LOS ANGELES MARKET	**11**	**26,068**	**29,319**	**54,782**	**84,101**	**1,502**	**29,319**	**56,284**	**85,603**	**(3,**
Trade Pointe III	1		1,020	7,240	8,260	(2)(2)	1,020	7,238	8,258	(
Riverport	1		1,279	8,812	10,091	1	1,279	8,813	10,092	(1,
TOTAL LOUISVILLE MARKET	**2**		**2,299**	**16,052**	**18,351**	**(1)**	**2,299**	**16,051**	**18,350**	**(1,**
Chickasaw	2		1,141	13,837	14,978	(249)(2)	1,141	13,588	14,729	(1,
Memphis Trade Center III	1	5,549	2,335	22,524	24,859	7	2,335	22,531	24,866	(1,
Panattoni Memphis Portfolio	7	33,888	18,088	114,739	132,827	(132)(2)	18,088	114,607	132,695	(5,
Memphis Distriplex	1	4,689	1,525	10,444	11,969		1,525	10,444	11,969	(
TOTAL MEMPHIS MARKET	**11**	**44,126**	**23,089**	**161,544**	**184,633**	**(374)**	**23,089**	**161,170**	**184,259**	**(8,**
Miami Service Center	1		1,110	3,811	4,921	1	1,110	3,812	4,922	(
Miami Commerce Center	1	6,200	3,050	10,769	13,819	27	3,050	10,796	13,846	(
Northeast 12 Terrace	1	2,500	1,169	6,088	7,257		1,169	6,088	7,257	(
	3	**8,700**	**5,329**	**20,668**	**25,997**	**28**	**5,329**	**20,696**	**26,025**	**(1,**

TOTAL MIAMI MARKET										
Bridgestone/Firestone	1	15,299	2,545	21,939	24,484	5,437	2,545	27,376	29,921	(2,
Mid South Logistics Center	1	12,688	1,772	18,288	20,060	38	1,772	18,326	20,098	(1,

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

December 31, 2005

(dollars in thousands)

			Initial Cost to Company			Costs Capitalized	Gross Amount Carried at 12/31/2005				
Property	No. of Bldgs	Encumbrances (5)	Land	Building & Improvements (1)	Total Costs	Subsequent to Acquisition	Land	Building & Improvements (1)	Total Costs (3)(4)(6)	Accumulated Depreciation (6)	Acqu D
Eastgate	1	11,079	1,445	13,352	14,797	104	1,445	13,456	14,901	(1,647)	03/1
Rockdale Distribution Center	1		2,940	12,188	15,128		2,940	12,188	15,128	(26)	12/2
TOTAL NASHVILLE MARKET	**4**	**39,066**	**8,702**	**65,767**	**74,469**	**5,579**	**8,702**	**71,346**	**80,048**	**(5,266)**	
Brunswick Avenue	1	9,931	3,665	16,380	20,045		3,665	16,380	20,045	(400)	07/2
Campus Drive	1	2,714	1,366	4,841	6,207		1,366	4,841	6,207	(122)	07/2
Cottontail Lane	1	6,240	1,960	9,169	11,129	186	1,960	9,355	11,315	(224)	07/2
Mary Kay Building	1		2,993	5,944	8,937		2,993	5,944	8,937	(13)	12/2
Dendreon Building	1		4,940	8,026	12,966		4,940	8,026	12,966	(17)	12/2
Rockaway	3	6,470	5,881	12,521	18,402		5,881	12,521	18,402	(30)	12/2
TOTAL NEW JERSEY MARKET	**8**	**25,355**	**20,805**	**56,881**	**77,686**	**186**	**20,805**	**57,067**	**77,872**	**(806)**	
Cypress Park East	2	10,634	2,627	13,055	15,682	36	2,627	13,091	15,718	(1,711)	10/2
TOTAL ORLANDO MARKET	**2**	**10,634**	**2,627**	**13,055**	**15,682**	**36**	**2,627**	**13,091**	**15,718**	**(1,711)**	
North Industrial	2	5,786	4,566	15,899	20,465	1,367(2)	4,566	17,266	21,832	(1,245)	10/0
South Industrial I	2	4,828	2,876	14,120	16,996	505	2,876	14,625	17,501	(1,139)	10/0
South Industrial II	1		1,235	4,902	6,137	390	1,235	5,292	6,527	(603)	10/0
West Southern Industrial	1		555	3,376	3,931	(103)(2)	555	3,273	3,828	(332)	10/0
West Geneva Industrial	3		413	2,667	3,080	204	413	2,871	3,284	(240)	10/0
West 24th Industrial	2		870	4,575	5,445	186	870	4,761	5,631	(269)	10/0
East Watkins Industrial	1		2,219	10,945	13,164	4	2,219	10,949	13,168	(952)	10/0
Sky Harbor Transit Center	1	3,760	2,534	7,597	10,131	(9)(2)	2,534	7,588	10,122	(765)	11/2

States Logistics Center	1		1,690	5,643	7,333		1,690	5,643	7,333	(12)	12/0
TOTAL PHOENIX MARKET	**14**	**14,374**	**16,958**	**69,724**	**86,682**	**2,544**	**16,958**	**72,268**	**89,226**	**(5,557)**	
Rittiman Business Park	2		388	7,336	7,724	(25)(2)	388	7,311	7,699	(1,256)	06/0
TOTAL SAN ANTONIO MARKET	**2**		**388**	**7,336**	**7,724**	**(25)**	**388**	**7,311**	**7,699**	**(1,256)**	
Huntwood Industrial	1		1,892	4,662	6,554	728	1,892	5,390	7,282	(1,093)	10/0
Eden Rock Industrial	2		1,943	4,746	6,689	257	1,943	5,003	6,946	(1,344)	10/0
Bayside Distribution Center	2	11,759	6,875	15,254	22,129	(20)(2)	6,875	15,234	22,109	(1,085)	11/0
TOTAL SAN FRANCISCO MARKET	**5**	**11,759**	**10,710**	**24,662**	**35,372**	**965**	**10,710**	**25,627**	**36,337**	**(3,522)**	
Industry Drive North	2	9,730	5,753	16,039	21,792		5,753	16,039	21,792	(364)	07/2
South 228th Street	2	11,051	4,739	17,797	22,536		4,739	17,797	22,536	(383)	07/2
64th Avenue South	1	6,383	3,345	9,335	12,680		3,345	9,335	12,680	(234)	07/2

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SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

December 31, 2005

(dollars in thousands)

			Initial Cost to Company			Costs Capitalized	Gross Amount Carried at 12/31/2005				Acquisitio
Property	**No. of Bldgs**	**Encumbrances (5)**	**Land**	**Building & Improvements (1)**	**Total Costs**	**Subsequent to Acquisition**	**Land**	**Building & Improvements (1)**	**Total Costs (3)(4)(6)**	**Accumulated Depreciation (6)**	**Date**
South 192nd Street	1	2,288	1,286	3,433	4,719	203	1,286	3,636	4,922	(85)	07/21/05
South 212th Street	1		3,095	10,253	13,348		3,095	10,253	13,348	(206)	08/01/05
Southwest 27th Street	1	7,570	4,579	8,357	12,936		4,579	8,357	12,936	(235)	07/21/05
TOTAL SEATTLE MARKET	**8**	**37,022**	**22,797**	**65,214**	**88,011**	**203**	**22,797**	**65,417**	**88,214**	**(1,507)**	
GRAND TOTAL	**264**	**632,383**	**317,258**	**1,643,950**	**1,961,208**	**17,267**	**317,258**	**1,661,217**	**1,978,475**	**(96,604)**	

(1) Included in Building & Improvements are intangible lease assets.

(2) Generally these reductions in basis include one or more of the following: i) payments received under master lease agreements and pursuant to 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; ii) writeoffs of fixed
asset balances due to early lease terminations by contracted customers; and iii) other miscellaneous basis adjustments.

(3) Reconciliation of total cost to consolidated balance sheet caption as of December 31, 2005 (in thousands):

Total per Schedule III (6)	$ 1,978,475
Properties under development	
Land	2,121
Construction in progress	6,280
Land held for development	8,049
Total investment in properties	$ 1,994,925

(4) As of December 31, 2005, the aggregate cost for federal income tax purposes of investments in real estate was approximately $1.6 billion.

(5) Reconciliation of total debt to consolidated balance sheet caption as of December 31, 2005 (in thousands):

Total per Schedule III	$ 632,383
Premiums, net of amortization	9,859
Mortgage notes	$ 642,242

(6) A summary of activity for real estate and accumulated depreciation for the year ended December 31, 2005 is as follows (in thousands):

Investments in properties:	
Balance at beginning of year	$ 754,064
Acquisition of properties	1,212,538
Improvements, including development properties	81,830
Asset write offs	(2,985)
Divestiture of properties	(50,522)
Balance at end of year	$ 1,994,925
Accumulated depreciation:	
Balance at beginning of year	$ 21,862
Depreciation expense	75,282
Asset write offs	(540)
Balance at end of year	$ 96,604

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) under the Exchange Act, as of December 31, 2005, the end of the period covered by this annual report. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that our disclosure controls and procedures will detect or uncover every situation involving the failure of persons within Dividend Capital Trust or its affiliates to disclose material information otherwise required to be set forth in our periodic reports. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of December 31, 2005.

Changes in Internal Control Over Financial Reporting

None.

ITEM 9B. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information about directors and executive officers and compliance with Section 16(a) of the Exchange Act 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.

Code of Business Conduct and Ethics

Our board of directors has adopted a Code of Business Conduct and Ethics and a Whistleblowing and Whistleblower Protection Policy which apply to all our directors and officers. A copy of the Code of Business Conduct and Ethics was included as Exhibit 14.1 of our Form 10-K, filed on March 22, 2004, and a copy of the Whistleblowing and Whistleblower Protection Policy was included as Exhibit 14.2 of our Form 10-K, filed on March 16, 2005.

ITEM 11. EXECUTIVE COMPENSATION

The information 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.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information 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.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information 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.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information 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.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

A. Financial Statements and Financial Statement Schedules.

1. Financial Statements.

The consolidated financial statements listed in the accompanying Index to Financial Statements on Page F-1 are filed as a part of this report.

2. Financial Statement Schedules.

The financial statement schedule required by this Item is filed with this report and is listed in the accompanying Index to Financial Statements on Page F-1. All other financial statement schedules are not applicable.

B. Exhibits.

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EXHIBIT INDEX

Exhibit Number	Description
*2.1	Agreement and Plan of Merger, dated June 17, 2005, among Dividend Capital Trust Inc., DCT Acquisition Corporation, Cabot Industrial Value Fund Inc. and Cabot Industrial Value Fund Manager, LLC (Exhibit 2.1 to Form 10-Q filed on August 15, 2005)
*2.2	Put/Call Agreement, dated July 21, 2005, among Cabot Industrial Fund Manager, LLC, the limited partners named therein and Dividend Capital Trust Inc. (Exhibit 2.2 to Form 10-Q filed on August 15, 2005)
*3.1	Dividend Capital Trust Inc. Amended and Restated Articles of Incorporation (Exhibit 3.1 to Form 8-K filed on November 26, 2003)
*3.2	Dividend Capital Trust Inc. Bylaws (Exhibit 3.2 to Form S-11 Registration Statement, Commission File No. 333-86234)
*4.1	Amended and Restated Distribution Reinvestment Plan (Exhibit 4.2 to Form S-3 Registration Statement, as amended on Form S-11, Commission File No. 333-122260)
*10.1	Amended and Restated Advisory Agreement between Dividend Capital Trust Inc. and Dividend Capital Advisors LLC dated November 21, 2003 (Exhibit 10.1 to Form 8-K filed November 26, 2003)
*10.2	Management Agreement between Dividend Capital Trust Inc. and Dividend Property Management LLC dated July 12, 2002 (Exhibit 10.3 to Form S-11 Registration Statement, Commission File No. 333-86234)
*10.3	Amended and Restated Dealer Manager Agreement (Exhibit 1.1 to Form S-3 Registration Statement, as amended on Form S-11, Commission File No. 333-122260)
*10.4	Form of Warrant Purchase Agreement (Exhibit 1.3 to Form S-11 Registration Statement, Commission File No. 333-86234)
*10.5	Form of Indemnification Agreement between Dividend Capital Trust Inc. and the officers and directors of Dividend Capital Trust Inc. (Exhibit 10.4 to Form S-11 Registration Statement, Commission File No. 333-862341)
*10.6	Limited Partnership Agreement of Dividend Capital Operating Partnership LP. (Exhibit 10.5 to Form S-11 Registration Statement, Commission File No. 333-86234)
*10.7.1	Dividend Capital Trust Inc. Employee Stock Option Plan (Exhibit 10.6.1 to Form S-11 Registration Statement, Commission File No. 333-86234)
*10.7.2	Dividend Capital Trust Inc. Independent Director Stock Option Plan (Exhibit 10.6.2 to Form S-11 Registration Statement, Commission File No. 333-86234)
*10.8	Agreement of Purchase and Sale, dated August 11, 2004, among Cabot Industrial Venture A, LLC, Cabot Industrial Venture B, LLC, CW Industrial Venture A Texas, L.P., CW Industrial Venture B Texas, L.P. and Dividend Capital Operating Partnership LP (Exhibit 10.1 to Form 10-Q filed on November 15, 2004)
*10.9	First Amendment to Agreement for Purchase and Sale, dated August 16, 2004, among Cabot Industrial Venture A, LLC, Cabot Industrial Venture B, LLC, CW Industrial Venture A Texas, L.P., CW Industrial Venture B Texas, L.P. and Dividend Capital Operating Partnership LP (Exhibit 10.2 to Form 10-Q filed on November 15, 2004)
*10.10	Second Amendment to Agreement for Purchase and Sale, dated August 25, 2004, among Cabot Industrial Venture A, LLC, Cabot Industrial Venture B, LLC, CW Industrial Venture A Texas, L.P., CW Industrial Venture B Texas, L.P. and Dividend Capital Operating Partnership LP (Exhibit 10.3 to Form 10-Q filed on November 15, 2004)

Exhibit Number	Description
*10.11	Third Amendment to Agreement for Purchase and Sale, dated August 30, 2004, among Cabot Industrial Venture A, LLC, Cabot Industrial Venture B, LLC, CW Industrial Venture A Texas, L.P., CW Industrial Venture B Texas, L.P. and Dividend Capital Operating Partnership LP (Exhibit 10.4 to Form 10-Q filed on November 15, 2004)
*10.12	Real Estate Contract, dated December 23, 2004, among Panattoni Development Company, LLC, the other Sellers listed therein and Dividend Capital Operating Partnership LP. (Exhibit 10.12 to Form 10-K filed on March 16, 2005)
*10.13	First Amendment to Real Estate Contract, dated January 7, 2005, among Panattoni Development Company, LLC, the other Sellers listed therein and Dividend Capital Operating Partnership LP. (Exhibit 10.13 to Form 10-K filed on March 16, 2005)
*10.14	Second Amendment to Real Estate Contract, dated January 21, 2005, among Panattoni Development Company, LLC, the other Sellers listed therein and Dividend Capital Operating Partnership LP. (Exhibit 10.14 to Form 10-K filed on March 16, 2005)
*10.15	Third Amendment to Real Estate Contract, dated February 15, 2005, among Panattoni Development Company, LLC, the other Sellers listed therein and Dividend Capital Operating Partnership LP. (Exhibit 10.15 to Form 10-K filed on March 16, 2005)
*10.16	Fourth Amendment to Real Estate Contract, dated February 22, 2005, among Panattoni Development Company, LLC, the other Sellers listed therein and Dividend Capital Operating Partnership LP. (Exhibit 10.16 to Form 10-K filed on March 16, 2005)
*10.17	Fifth Amendment to Real Estate Contract, dated February 25, 2005, among Panattoni Development Company, LLC, the other Sellers listed therein and Dividend Capital Operating Partnership LP. (Exhibit 10.17 to Form 10-K filed on March 16, 2005)
*10.18	Sixth Amendment to Real Estate Contract, dated March 2, 2005, among Panattoni Development Company, LLC, the other Sellers listed therein and Dividend Capital Operating Partnership LP. (Exhibit 10.18 to Form 10-K filed on March 16, 2005)
*10.19	Seventh Amendment to Real Estate Contract, dated March 4, 2005, among Panattoni Development Company, LLC, the other Sellers listed therein and Dividend Capital Operating Partnership LP. (Exhibit 10.19 to Form 10-K filed on March 16, 2005)
*10.20	Cabot Industrial Value Fund, L.P. Second Amended and Restated Limited Partnership Agreement, dated July 21, 2005 (Exhibit 10.2 to Form 10-Q filed on August 15, 2005)
*14.1	Code of Business Conduct and Ethics (Exhibit 14.1 to Form 10-K filed on March 22, 2004)
*14.2	Whistleblowing and Whistleblower Protection Policy (Exhibit 14.2 to Form 10-K filed on March 16, 2005)
+21.1	List of Subsidiaries
+23.1	Consent of KPMG LLP, Independent Registered Public Accounting Firm, dated March 14, 2006
+31.1	Rule 13a-14(a) Certification of Principal Executive Officer
+31.2	Rule 13a-14(a) Certification of Principal Financial Officer
+32.1	Section 1350 Certification of Principal Executive Officer
+32.2	Section 1350 Certification of Principal Financial Officer

+ Filed herewith.
* Previously filed.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DIVIDEND CAPITAL TRUST INC.

By: /s/ EVAN H. ZUCKER
Evan H. Zucker,

Chief Executive Officer and President

Date: March 16, 2006

Pursuant to the requirements of the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ THOMAS G. WATTLES **Thomas G. Wattles**	Chairman and Director	March 16, 2006
/s/ EVAN H. ZUCKER **Evan H. Zucker**	Chief Executive Officer, President, Secretary and Director	March 16, 2006
/s/ JAMES R. MULVIHILL **James R. Mulvihill**	Chief Financial Officer, Treasurer and Director	March 16, 2006
/s/ PHILLIP R. ALTINGER **Phillip R. Altinger**	Director	March 16, 2006
/s/ TRIPP H. HARDIN **Tripp H. Hardin**	Director	March 16, 2006
/s/ JOHN C. O KEEFFE **John C. O Keeffe**	Director	March 16, 2006
/s/ BRUCE L. WARWICK **Bruce L. Warwick**	Director	March 16, 2006

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