Integrated Electrical Services, Inc.
Form 4
July 02, 2015

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
Dowling Joseph L III

(Last) (First) (Middle)

5433 WESTHEIMER, SUITE 500

(Street)

HOUSTON, TX 77056

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Integrated Electrical Services, Inc. [IESC]

3. Date of Earliest Transaction (Month/Day/Year)
07/01/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock (1)	07/01/2015		A		1,408	A	$ 0	37,284	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Dowling Joseph L III 5433 WESTHEIMER, SUITE 500 HOUSTON, TX 77056	X			

Signatures

/s/Gail D. Makode, Attorney-in-Fact	07/02/2015
**Signature of Reporting Person	Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- **(1)** Represents Common Stock granted pursuant to the Integrated Electrical Services, Inc. 2006 Equity Incentive Plan (as amended and restated) upon the reporting person electing to receive stock in lieu of cash or Phantom Stock Units for that portion of his retainer.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. man" SIZE="2">2,182 1,429 753

Asset management fees, related party

7,815 2,703 5,112

Equity in losses of unconsolidated joint

ventures, net

182 182

Interest expense

26,436 8,545 17,891

Total other expenses	88,306	39,219	49,087
Minority interests	298	(3)	301
Net income (loss)	$309	$(1,834)	$2,143

(1) See Note 12 to the consolidated financial statements for further discussion of net operating income.

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Rental Revenues

Rental revenues increased by approximately $52.0 million for the six months ended June 30, 2006 compared to the same period in 2005, primarily as a result of the rental revenue generated from the additional operating properties acquired subsequent to June 30, 2005. Same store rental revenues decreased by approximately $0.6 million for the six months ended June 30, 2006 compared to the same period in 2005, related to lower occupancy primarily due to early lease terminations. Additionally, net losses related to the write off of intangible lease assets associated with terminated leases were $0.1 million for the six months ended June 30, 2006 compared to net gains on early lease terminations recorded in June 2005 of approximately $2.8 million primarily related to a payment of an early termination fee of $3.7 million.

Rental Expenses

Rental expenses increased by approximately $12.2 million for the six months ended June 30, 2006 compared to the same period in 2005, primarily as a result of the additional operating properties acquired subsequent to June 30, 2005. Same store rental expenses decreased by approximately $221,000 for the six months ended June 30, 2006 compared to the same period in 2005, primarily due to the loss on an early lease termination recorded in 2005 of approximately $170,000. These losses were generally a result of lease related assets being written off.

Other Income

Other income increased by approximately $11.1 million for the six months ended June 30, 2006 as compared to the same period in 2005 primarily as a result of a gain recorded on the disposition of real estate interests of approximately $4.0 million, a gain of approximately $4.1 million recorded in connection with the completion of the aforementioned building expansion and an increase in interest income of $2.9 million due to higher average cash balances held in interest bearing bank accounts and such accounts yielding a higher rate of return during the six months ended June 30, 2006 as compared to the same period in 2005.

Other Expenses

Depreciation and amortization expense increased by approximately $25.1 million for the six months ended June 30, 2006 as compared to the same period in 2005, primarily due to the additional properties acquired subsequent to June 30, 2005. The increase in asset management fees payable to our Advisor of approximately $5.1 million was attributable to the aforementioned additional properties all of which are subject to the 0.75% asset management fee referenced above. The increase in interest expense of approximately $17.9 million is generally attributable to higher average outstanding debt balances and higher financing obligation balances that were outstanding during the six months ended June 30, 2006 compared to the same period in 2005.

Off-Balance Sheet Arrangements

As of June 30, 2006, December 31, 2005 and June 30, 2005, 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. We own interests in unconsolidated joint ventures. Based on the provisions of the relevant joint venture agreements, we are not deemed to have control of these joint ventures sufficient to require or permit consolidation for accounting purposes (see Note 1 to the consolidated financial statements). There are no lines of credit, side agreements, or any other derivative financial instruments related to or between our unconsolidated joint ventures and us and we have no material exposure to financial guarantees. Accordingly, our maximum risk of loss related to these unconsolidated joint ventures is limited to the carrying amounts of our investments in the unconsolidated joint ventures, which were $17.0 million and $6.1 million at June 30, 2006 and December 31, 2005, respectively.

Critical Accounting Policies

General

In our Form 10-K filed for the year ended December 31, 2005, as amended, we discuss the critical accounting policies which management believes are most critical to the presentation of our financial condition and results of operations which require our management s most difficult, subjective or complex judgments. These judgments often result from the need to make estimates about the effect of matters that are inherently uncertain. The

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discussion addresses judgments known to management pertaining to trends, events or uncertainties which were taken into consideration upon the application of those policies and the likelihood that materially different amounts would be reported upon taking into consideration different conditions and assumptions. As of June 30, 2006, no additional critical accounting policies had been identified other than those set forth in our Form 10-K filed for the year ended December 31, 2005, as amended.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss from adverse changes in market conditions such as prices 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 our risk related to 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, including refinancing of existing fixed rate debt. Interest rate risk may result from many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control. To manage interest rate risk for forecasted issuances of fixed rate debt, we primarily use treasury locks and forward-starting swaps as part of our cash flow hedging strategy. These derivatives are designed to mitigate the risk of future interest rate fluctuations by providing a future fixed interest rate for a limited pre-determined period of time. During the six months ended June 30, 2006 and 2005, such derivatives were used to hedge the variable cash flows associated with forecasted issuances of debt and certain variable rate debt issuances. 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.

As of June 30, 2006, derivatives with a fair value of $6.0 million were included in other assets. There was no ineffectiveness to be recorded during the three and six months ended June 30, 2006. The assets associated with these derivatives would decrease approximately $9.6 million if the market interest rate of the referenced swap index were to decrease 10% (or 0.56%) based upon the prevailing market rate at June 30, 2006.

Similarly, 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 as of June 30, 2006, were to increase 10%, our interest expense for the three and six months ended June 30, 2006 would have increased by $181,000 and $217,000, respectively, and our interest expense for the three and six months ended June 30, 2005 would have increased by $14 and $895, respectively. As of June 30, 2006, the estimated fair value of our debt was estimated to be approximately $1.2 billion based on our estimate of the then current market interest rates.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation 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 June 30, 2006, the end of the period covered by this quarterly report. Our management, including our principal executive officer and principal financial officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within Dividend Capital Trust have been detected. Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of June 30, 2006.

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Changes in Internal Controls

There were no changes in our internal controls over financial reporting identified in connection with the evaluation of such internal controls that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors set forth in Item 1A. to Part I of our Form 10-K filed on March 16, 2006 and amended on Form 10-K/A filed on April 28, 2006. However, the Internalization transaction with our Advisor presents certain new risks, which are described in detail below. Furthermore, were the Internalization to be consummated, our Advisor would become our wholly-owned subsidiary, we would enter into employment agreements with certain individuals associated with our Advisor or its affiliates and we would become a fully-integrated, self-administered and self-advised REIT. As a result, we would no longer bear the cost of the advisory fees and other amounts payable under the advisory agreement with our Advisor nor would we be subject to certain of the risks and conflicts of interests relating to our Advisor that are described herein and in our Form 10-K, as amended.

RISKS RELATING TO THE INTERNALIZATION

Certain of our directors and officers have potential conflicts of interest.

Certain of our directors and officers have material financial interests in the Internalization. In particular, all of our officers and three of our directors are also employees or consultants of our Advisor or its affiliates. Moreover, Thomas Wattles, our Chairman and a director, has indirect beneficial ownership and control with his spouse of a 12.825% membership interest in the Advisor s Parent and is entitled to receive 8.084% of the net cash flow of the Advisor s Parent (a Cash Flow Interest); Evan Zucker, our Chief Executive Officer, President, Secretary and a director, has indirect beneficial ownership and control with his spouse of a 23.014% membership interest in the Advisor s Parent and a 12.280% Cash Flow Interest; and James Mulvihill, our Treasurer, Chief Financial Officer and a director, has indirect beneficial ownership and control with his spouse of a 23.014% membership interest in the Advisor s Parent and a 12.280% Cash Flow Interest. Accordingly, the Internalization will result in Messrs. Wattles, Zucker and Mulvihill receiving indirect beneficial ownership with their respective spouses of approximately 4.9 million limited partnership units in our operating partnership. Messrs. Zucker and Mulvihill will cease to be our officers and Mr. Zucker will cease to be one of our directors as of the closing date of the Internalization and subsequently will not participate in our day-to-day management.

Holders of limited partnership units generally have the right to cause our partnership to redeem all or a portion of their limited partnership units for cash or, at our sole discretion, shares of our common stock, or a combination of both. If the Advisor s Parent exercised its redemption rights with respect to its limited partnership units and we elected to redeem the limited partnership units for shares of our common stock, Messrs. Wattles, Zucker and Mulvihill would have indirect beneficial ownership with their respective spouses of approximately 4.9 million shares of common stock, representing approximately 2.926% of the outstanding shares of our common stock, assuming all outstanding limited partnership units were exchanged for shares of common stock on a one-for-one basis, as of June 30, 2006.

In addition, we have entered into certain employment agreements with the following individuals associated with our Advisor or its affiliates, which will be effective as of the closing date of the Internalization: Thomas Wattles, Philip Hawkins, James Cochran, Daryl Mechem, Matthew Murphy and Michael Ruen (the Employment Agreements). While the new Employment Agreements provide for annual salaries that in most instances are substantially the same as such individuals are currently paid by our Advisor except for Mr. Hawkins who, prior to August 14, 2006, was not associated with our Advisor, the Employment Agreements contain other benefits that may differ from existing employment arrangements. In particular, the Employment Agreements provide that each such individual will be eligible for an annual bonus of a percentage of his then-current annual salary, which may give rise to the payment of bonuses higher than such individuals would receive in the absence of a written employment agreement. Further, pursuant to certain contractual relationships, such officers (other than Mr. Hawkins) collectively have an aggregate 18.071% Cash Flow Interest, which, in connection with the Internalization, will entitle them to certain economic rights with respect to the Advisor Parent s ownership of an aggregate of approximately 2.7 million limited partnership units. In connection with the Internalization, we also are proposing the adoption of a 2006 Long-Term Incentive Plan, which plan will be submitted to our shareholders for approval at our annual meeting of shareholders. We contemplate issuing long-term incentive stock awards to such executives, pursuant to the terms of the 2006 Long-Term Incentive Plan (if approved by our shareholders at the annual meeting) to be administered by our compensation committee. In particular, as a signing bonus, Mr. Hawkins, under our 2006 Long-Term Incentive Plan, will receive, subject to the approval of the 2006 Long-Term Incentive Plan proposal by our shareholders at the annual meeting, 450,795 of shares of our common stock vesting over five years (0%, 0%, 25%, 25% and 50%) commencing on August 1, 2007, and in addition, upon the closing of the Internalization, will purchase 88,889 of shares of our common stock at $11.25 per share.

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In the Contribution Agreement, we agreed that at the closing of the Internalization we will enter into a registration rights agreement (the Registration Rights Agreement) with the Advisor s Parent in respect of any shares of our common stock acquired or otherwise owned by or issuable to the Advisor s Parent or its permitted transferees upon exchange of the limited partnership units issued in the Internalization. The Registration Rights Agreement requires us, on up to two occasions, on demand of the Advisor s Parent or its permitted transferees as a group, to prepare and file a registration statement within 45 days of the demand that covers the resale of the shares specified in the demand, and to use our commercially reasonable efforts to cause the registration statement to become effective if it is not automatically effective on filing. We are not required to file a registration statement unless the shares covered by the registration statement have a maximum aggregate offering price of at least $25.0 million (unless the registration statement covers all remaining registrable shares). This demand registration right is exercisable any time after the date that is 15 months following the date of the Registration Rights Agreement (subject to extension as discussed below). In addition, if at any time after the date that is 15 months following the date of the Registration Rights Agreement (subject to extension as discussed below), we propose to file a registration statement with respect to a public offering of shares of our common stock pursuant to a firm commitment underwritten offering or for the account of any holder of shares of our common stock subject to certain exceptions, we must give notice of the proposed filing to the Advisor s Parent and its permitted transferees, if any, at least 21 days before the anticipated filing date and offer such persons the opportunity to include in the registration statement such amount of shares of our common stock as they may request, subject to customary underwriter cutback provisions (in addition to those described below) pursuant to which we will have priority. This piggyback registration right does not apply to registration statements filed in connection with employee stock option or purchase plans, relating to a transaction requiring registration pursuant to Rule 145 under the Securities Act, relating solely to a dividend or distribution reinvestment plan, or on Form S-8 or any successor form thereto. The foregoing rights are subject to our right to postpone the filing of any registration statement we may file, or suspend the use of an effective registration statement we have filed, pursuant to the Registration Rights Agreement, for a reasonable period of time, but not longer than 90 days in any consecutive 12-month period under certain conditions. The aggregate number of days in any such delays or postponements will extend for an equal period of time the ability of the Advisor s Parent or its permitted transferees to exercise their demand registration rights. In addition, if the managing underwriter(s) of a firm commitment underwritten offering advise(s) us that the total amount of securities requested to be included in an offering exceeds the amount which can be sold in such offering without jeopardizing the success of that offering (including the price per share of the securities to be sold), then we will pro-rate the number of shares requested to be included by the Advisor s Parent or its permitted transferees in the offering pursuant to their piggyback registration rights, on the basis of the number of shares of common stock with demand registration rights requested to be included. We will bear all costs, fees and expenses incident to our obligations under the Registration Rights Agreement, including the reasonable fees of one counsel selected by the majority of holders of registrable shares, other than the fees and expenses of any persons retained by the Advisor s Parent or its permitted transferees, including counsel (except as previously noted), any underwriters or dealers discounts and all commissions or brokers fees or fees of similar securities industry professionals and any transfer taxes relating to the disposition of their shares of our common stock but the fees and other changes of any counsel appointed to represent all the holders will be paid for by us.

Pursuant to the Contribution Agreement, the Advisor s Parent has agreed, without our prior written consent, not to offer, sell, contract to sell, pledge or otherwise transfer or dispose of any of the limited partnership units issued in connection with the Internalization or securities convertible or exchangeable or exercisable for any such limited partnership units or enter into any swap, hedge or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of the limited partnership units issued in connection with the Internalization during the 15-month period following the closing date of the Internalization; it being understood that the foregoing restriction does not prohibit the purchase or sale of securities (including derivative securities that do not involve any securities issued by us) issued by persons other than us or our partnership.

Future sales of shares of our common stock by the Advisor s Parent or its members or other holders of Cash Flow Interests may adversely affect the fair market value of shares of our common stock.

Sales of a substantial number of shares of our common stock by the Advisor s Parent or its members or other holders of Cash Flow Interests, or the perception that these sales could occur, could adversely affect prevailing prices for shares of our common stock. These sales might make it more difficult for us to sell equity securities in the future at a time and price we deem appropriate.

We may compete with our affiliates for properties.

Although we will be self-advised if the Internalization is consummated, we still will be subject to certain conflicts of interest. Certain of our other current affiliates could seek to acquire properties that could satisfy our acquisition criteria. As a result, we may decide not to pursue the acquisitions of properties we would otherwise seek to acquire in order to avoid bidding against an affiliate. While certain of our affiliates have agreed not to engage in activities within North America relating to the ownership, acquisition, development or management of industrial properties until the third anniversary of the closing date of the Internalization, such agreements are subject to certain exceptions.

Our Chairman of the Board will have competing demands on his time and attention.

Mr. Wattles, Chairman of our board of directors, owns a portion of and serves as a manager to the parent company of the external advisor of our affiliate, Dividend Capital Total Realty Trust Inc. (DCTRT), and has similar ownership and serves as a manager for other affiliates of the Advisor s Parent. Following the closing date of the Internalization, he will devote significant time to us, but will not work full time for us and could take actions that are more favorable to these other entities than to us.

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We may invest with our affiliates.

We may invest in joint ventures or other programs sponsored by affiliates of two of our directors, Mr. Wattles and Mr. Mulvihill, following the Internalization, including those pursuant to a joint venture agreement that we are seeking to enter into with DCTRT in connection with the Internalization. Our independent directors must approve any such transaction. Management s recommendation to our independent directors may be affected by its relationship with one or more of the co-venturers and may be more beneficial to the other programs than to us.

Our net income per share and FFO per share in the near term may decrease as a result of the Internalization.

Our net income and funds from operation, or FFO, in the near term may decrease as a result of the Internalization, in connection with the one-time, non-recurring non-cash charge to earnings we will incur for the portion of the Internalization consideration that is allocated as the cost for terminating the Advisory agreement with our Advisor. While we will no longer bear the costs of the various fees and expenses previously paid to our Advisor if and after we become self-advised, our expenses will include the compensation and benefits of our officers and the other employees and consultants previously paid by our Advisor or its affiliates. Further, our net income per share and FFO per share may decrease in the near term due to the additional expenses recognized. In addition, if the Internalization is consummated, we will issue 15,111,111 limited partnership units, representing approximately 9.0% of the outstanding shares of our common stock, assuming these limited partnership units were issued, and then all outstanding limited partnership units were exchanged for shares of our common stock on a one-for-one basis, as of June 30, 2006, and expect to issue long-term incentive stock awards under the terms of the Employment Agreements, which will have a dilutive effect on our current shareholders. If the Internalization is not consummated, the amount of the fees payable to our Advisor will depend on a number of factors, including the amount of additional equity, if any, that we are able to raise, our acquisition activity, and the profitability of our business. Therefore, the exact amount of future fees that we would pay to our Advisor cannot reasonably be estimated. If the expenses we assume as a result of the Internalization are higher than we anticipate, our net income per share and FFO per share may be lower as a result of the Internalization than it otherwise would have been, potentially causing our net income per share and FFO per share to decrease.

We may be exposed to risks to which we have not historically been exposed.

The Internalization will expose us to risks to which we have not historically been exposed. Excluding the effect of the eliminated asset management fees, our direct overhead, on a consolidated basis, will increase as a result of becoming self-advised. If we fail to raise and/or invest additional capital, or if performance of our properties declines, we may not be able to cover this new overhead. Under the current advisory agreement, the responsibility for such overhead is borne by our Advisor.

In our current externally-advised structure, we do not directly employ any employees. As a result of the Internalization, we will directly employ persons who are currently associated with our Advisor or its affiliates and will establish a new defined contribution retirement plan for our employees. As of June 30, 2006, our Advisor and its affiliates who provided services to us had approximately 100 employees or consultants, approximately 50 of whom will become our employees as of the closing date of the Internalization. The individuals not becoming our employees generally had roles dealing with capital raising activities and our partnership s private placement. As their employer, we will be subject to those potential liabilities that are commonly faced by employers, such as workers disability and compensation claims, potential labor disputes and other employee related liabilities and grievances and we will bear the costs of the establishment and maintenance of such plans.

Costs associated with our Advisor s personnel after the Internalization may exceed the compensation previously paid by us to our Advisor for such services.

To date, we have incurred fees and expense reimbursements under the advisory agreement for, among other things, management, advisory, acquisition and development services provided by our Advisor. After consummation of the Internalization, we will no longer pay these fees and expense reimbursements. We will instead directly incur the operating and related costs incurred previously by our Advisor. No assurance can be given that the cost of the Internalization will not exceed the compensation and expense reimbursements payable to our Advisor under the current advisory agreement.

After the Internalization, we will be dependent on our own executives and employees.

We will rely on a small number of persons who comprise our existing senior management, particularly Messrs. Wattles, Hawkins, Cochran, Mechem, Murphy and Ruen, to carry out our business and investment strategies. While we have entered into the Employment Agreements with five current members of our senior management (Messrs. Wattles, Cochran, Mechem, Murphy and Ruen), as well as with Mr. Hawkins, who, as of the closing date of the Internalization, will become our new chief executive officer and a director, these individuals may nevertheless cease to provide services to us at any time. In addition, Mr. Wattles will remain on our board of directors, Mr. Hawkins will join our board of directors, but Mr. Zucker will resign as Chief Executive Officer, President, Secretary and a director and Mr. Mulvihill will resign as Treasurer and Chief

Financial Officer. The loss of the services of any of our key management personnel, or our inability to recruit and retain qualified personnel in the future, could have an adverse effect on our business and financial results. As we expand, we will continue to need to try to attract and retain qualified additional senior management, but may not be able to do so on acceptable terms.

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The failure of our shareholders to approve the Long-Term Incentive Plan proposal could have a material adverse effect on our business and financial results.

We have entered into the Employment Agreements with various individuals associated with our Advisor or its affiliates, which will generally become effective as of the closing date of the Internalization. The Employment Agreements are with persons who will constitute our senior management following the Internalization. These agreements provide, among other things, for long-term incentive compensation awards and target bonuses that will be paid pursuant to the 2006 Long-Term Incentive Plan and the 2006 Incentive Compensation Plan, which we are also submitting to our shareholders for approval at our annual meeting of shareholders in connection with the Internalization. If the 2006 Long-Term Incentive Plan is not approved by our shareholders, pursuant to the terms of the Employment Agreements, the members of our senior management will be entitled to terminate their respective agreements for good reason. Further, if the 2006 Long-Term Incentive Plan is not approved by our shareholders, it could materially adversely affect us because we could be deprived of the services of our senior management and the ability to provide the incentives necessary to attract qualified replacements and other personnel.

The per unit price of $11.25 agreed to by the parties to the Contribution Agreement in their negotiation of the terms of the Internalization may not reflect the fair market value of shares of our common stock.

The selling price of shares of our common stock in our most recent continuous public offering was $10.50 per share. We closed the primary component of this offering on January 23, 2006. However, we continue to sell shares under our distribution reinvestment plan based on a value of $10.50 per share. In connection with the Internalization, a special committee comprised of our independent directors negotiated the amount of the Internalization consideration by first negotiating a price expressed in dollars ($170.0 million) and then agreeing upon the value per limited partnership unit to be used in deciding the number of limited partnership units that would represent $170.0 million in value ($11.25 per unit). Since at present there is no active trading market for shares of our common stock or limited partnership units in our partnership, there is no objective way to precisely value the limited partnership units that the Advisor s Parent will receive in the Internalization. If we complete a listing or quotation of shares of our common stock on a national securities exchange or an over-the-counter market in the near future, the prices at which shares of our common stock trade following such listing or quotation will provide a more objective indication of the value of each limited partnership unit received by the Advisor s Parent. If the fair market value of the 15,111,111 limited partnership units to be received by the Advisor s Parent in the Internalization proves to be greater than $11.25 per unit, the Advisor s Parent will have received consideration worth more than $170.0 million for our Advisor. Conversely, if the fair market value of those limited partnership units proves to be less than $11.25 per unit, the Advisor s Parent will have received consideration worth less than $170.0 million. Neither party has the right to terminate the Contribution Agreement due to a change in the fair market value of shares of our common stock. If we pursue and complete a listing or quotation of shares of our common stock on a national securities exchange or an over-the-counter market, our shares of common stock may trade in the public market at a price different from $11.25 per share.

Our organizational documents contain provisions which may discourage a takeover of us and could depress the price of shares of our common stock.

Our organizational documents contain provisions which may discourage a takeover of us and could depress the price of shares of our common stock. In connection with the Internalization, we also are proposing certain amendments to our charter, which amendments will be submitted to our shareholders for approval at our annual meeting of shareholders. In connection with these amendments, we also will amend our bylaws in order to make conforming changes. Upon completion of the Internalization and approval and implementation of the charter amendments, our organizational documents will contain provisions which may have an anti-takeover effect, inhibit a change of our management, or inhibit in certain circumstances tender offers for shares of our common stock or proxy contests to change our board of directors. These provisions include: provisions that directors may only be removed for cause; restricting the shareholders from altering the number of directors; ownership limits and restrictions on transferability that are intended to enable us to continue to qualify as a REIT; provisions that give our board of directors broad discretion, without shareholder approval, to issue new classes of securities that may discourage a third party from acquiring us; the ability, through board action or by-law amendment to opt-in to certain provisions of Maryland law that may impede efforts to effect a change in control of us; advance notice requirements for shareholder amendments; and the absence of cumulative voting rights. In addition, the terms of the Employment Agreements and the 2006 Long-Term Incentive Plan contain change of control provisions that might similarly have an anti-takeover effect, inhibit a change of our management, or inhibit in certain circumstances tender offers for shares of our common stock or proxy contests to change our board of directors.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
Share Redemption Program

We have 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 holders of limited partnership units in 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 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 program is administered and governed by our board of directors and is subject to change at the board s discretion and in no event will the redemption price exceed the current offering price of our common shares (excluding the discounted price per share pursuant to our distribution reinvestment plan).

We expect to fund the redemption of our shares or units with proceeds received from the sale of shares pursuant to our distribution reinvestment plan. Our board of directors may, at its sole discretion, choose to use other sources of funds to redeem shares. The table below sets forth information regarding our redemption of common stock from our shareholders for the quarter ended June 30, 2006.

Period	Total Number of Shares Repurchased (1)	Average Price per Share
April 2006	2,930	$ 9.79
May 2006		
June 2006	670,893	9.67
Total	673,823	$ 9.67

(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.

Recent Sales of Unregistered Securities

Pursuant to our partnership s private placement, on June 30, 2006, our partnership issued approximately 823,000 limited partnership units to certain accredited investors in conjunction with the exercise of a purchase option pursuant to which our partnership had the right to acquire tenancy-in-common interest in an industrial property from such investors. Such investors had previously acquired such tenancy-in-common interests from our

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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 had a collective issue price of approximately $8.6 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Entry into a Material Definitive Agreement

On April 13, 2006, pursuant to an unanimous written consent in lieu of a special meeting, our Board of Directors adopted resolutions appointing a special committee comprised of Messrs. Phillip R. Altinger, Tripp H. Hardin, John C. O Keeffe and Bruce L. Warwick, our independent directors, and authorized the special committee to review, consider and negotiate the terms and conditions of the Internalization of our Advisor and to make a recommendation to our entire Board of Directors as to whether or not to pursue the Internalization of our Advisor and, if so, on what terms and conditions. In connection with the committee s formation, our Board of Directors approved the following compensation for the committee members: each member will receive $1,500 per meeting; Mr. Warwick and Mr. Altinger, the committee co-chairs, will each receive a one-time payment of $50,000, as well as a monthly retainer equal to $7,500 for serving in such capacity beginning with the date the special committee was formed; and Messrs. O Keefe and Hardin will each receive a one-time payment of $20,000, as well as a monthly retainer equal to $5,000 for serving in such capacity beginning with the date the special committee was formed.

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ITEM 6. EXHIBITS

a. Exhibits

*10.1	Form of Indemnification Agreement between Dividend Capital Trust Inc. and the independent directors of Dividend Capital Trust Inc. (Exhibit 10.4.1 to Form S-3 Registration Statement, as amended on Form S-11, Commission File No. 333-122260)
*10.2	Form of Indemnification Agreement between Dividend Capital Trust Inc. and the non-independent directors of Dividend Capital Trust Inc. (Exhibit 10.4.2 to Form S-3 Registration Statement, as amended on Form S-11, Commission File No. 333-122260)
*10.3	Agreement of Purchase and Sale dated as of May 10, 2006 among Cabot Industrial Venture A, LLC, Cabot Industrial Venture B, LLC, CW Industrial Venture A, LLC, Cabot Industrial Venture A Texas, LP, Cabot Industrial Venture B Texas, LP and Dividend Capital Operating Partnership LP (Exhibit 10.20 to Form S-3 Registration Statement, as amended on Form S-11, Commission File No. 333-122260)
*10.4	Note Purchase Agreement dated as of June 9, 2006 among Dividend Capital Trust Inc., Dividend Capital Operating Partnership LP and the purchasers party thereto (Exhibit 10.22 to Form S-3 Registration Statement, as amended on Form S-11, Commission File No. 333-122260)
+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 the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DIVIDEND CAPITAL TRUST INC.

Date: August 14, 2006

/*s*/ Evan H. Zucker
Evan H. Zucker
Chief Executive Officer

Date: August 14, 2006

/*s*/ James R. Mulvihill
James R. Mulvihill
Chief Financial Officer

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