

KITE REALTY GROUP TRUST
Form 10-Q
August 09, 2006

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

OR

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

For the transition period from _____ to _____

Commission File Number: 001-32268

Kite Realty Group Trust

(Exact Name of Registrant as Specified in its Charter)

Maryland

(State or other jurisdiction of incorporation or organization)

11-3715772

(IRS Employer Identification Number)

30 S. Meridian Street, Suite 1100

Indianapolis, Indiana

(Address of principal executive offices)

46204

(Zip code)

Telephone: (317) 577-5600

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of Common Shares outstanding as of August 1, 2006 was 28,811,325 (\$.01 par value)

**KITE REALTY GROUP TRUST
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006
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Cautionary Note About Forward-Looking Statements

This Quarterly Report on Form 10-Q, together with other statements and information publicly disseminated by Kite Realty Group Trust (the Company), contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such statements are based on assumptions and expectations that may not be realized and are inherently subject to risks, uncertainties and other factors, many of which cannot be predicted with accuracy and some of which might not even be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements expressed or implied by the forward-looking statements. Risks, uncertainties and other factors that might cause such differences, some of which could be material, include but are not limited to:

national and local economic, business, real estate and other market conditions;

the ability of tenants to pay rent;

the competitive environment in which the Company operates;

financing risks;

property ownership and management risks;

the level and volatility of interest rates;

the financial stability of tenants;

the Company's ability to maintain its status as a real estate investment trust (REIT) for federal income tax purposes;

acquisition, disposition, development and joint venture risks;

potential environmental and other liabilities;

other factors affecting the real estate industry generally; and other risks identified in this Quarterly Report on Form 10-Q and, from time to time, in other reports we file with the Securities and Exchange Commission (the SEC) or in other documents that we publicly disseminate, including, in particular, the section titled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and in our quarterly reports on Form 10-Q.

The Company undertakes no obligation to publicly update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

Part I. FINANCIAL INFORMATION

Item 1.

Kite Realty Group Trust
Consolidated Balance Sheets
(Unaudited)

	June 30, 2006	December 31, 2005
Assets:		
Investment properties at cost:		
Land	\$ 169,513,693	\$ 172,509,684
Land held for development	61,341,811	51,340,820
Buildings and improvements	481,030,140	485,129,649
Furniture, equipment and other	5,426,138	5,675,980
Construction in progress and other	120,753,907	65,903,868
	<u>838,065,689</u>	<u>780,560,001</u>
Less accumulated depreciation	(52,455,552)	(41,825,911)
	<u>785,610,137</u>	<u>738,734,090</u>
Cash and cash equivalents	10,750,083	15,208,835
Tenant receivables, including accrued straight-line rent, net of allowance for bad debts	14,898,601	11,302,923
Other receivables	13,961,902	6,082,511
Investments in unconsolidated entities at equity	1,164,978	1,303,919
Escrow deposits	7,706,098	6,718,198
Other assets	23,424,530	19,879,330
	<u>857,516,329</u>	<u>799,229,806</u>
Total Assets	\$ 857,516,329	\$ 799,229,806
Liabilities and Shareholders Equity:		
Mortgage and other indebtedness	\$ 439,156,807	\$ 375,245,837
Accounts payable and accrued expenses	32,702,300	30,642,822
Deferred revenue and other liabilities	27,109,721	25,369,152
Minority interest	4,431,111	4,847,801
	<u>503,399,939</u>	<u>436,105,612</u>
Total Liabilities	503,399,939	436,105,612
Commitments and contingencies		
Limited Partners' interests in operating partnership	79,977,187	84,244,814
Shareholders Equity:		
Preferred Shares, \$.01 par value, 40,000,000 shares authorized, no shares issued and outstanding		
Common Shares, \$.01 par value, 200,000,000 shares authorized, 28,808,483 shares and 28,555,187 shares issued and outstanding, respectively	288,085	285,552
Additional paid in capital	290,623,080	288,976,563
Unearned compensation		(808,015)
Accumulated other comprehensive income	677,878	427,057
Accumulated deficit	(17,449,840)	(10,001,777)
	<u>274,139,203</u>	<u>278,879,380</u>
Total shareholders' equity	274,139,203	278,879,380
Total Liabilities and Shareholders' Equity	\$ 857,516,329	\$ 799,229,806

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

Kite Realty Group Trust
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Revenue:				
Minimum rent	\$ 16,509,839	\$ 13,346,462	\$ 32,244,511	\$ 25,877,090
Tenant reimbursements	4,417,611	2,871,856	8,113,484	5,495,044
Other property related revenue	944,966	407,589	1,996,667	1,356,089
Construction and service fee revenue	9,036,996	5,590,667	16,933,932	8,679,643
Other income, net	31,312	79,894	85,188	92,458
Total revenue	30,940,724	22,296,468	59,373,782	41,500,324
Expenses:				
Property operating	3,274,984	2,451,267	6,309,158	5,179,357
Real estate taxes	3,122,720	1,874,849	5,629,634	3,373,230
Cost of construction and services	7,899,325	4,390,955	15,084,689	7,299,339
General, administrative, and other	1,601,176	1,277,102	2,944,713	2,509,371
Depreciation and amortization	7,842,914	5,356,577	15,365,149	10,175,910
Total expenses	23,741,119	15,350,750	45,333,343	28,537,207
Operating income	7,199,605	6,945,718	14,040,439	12,963,117
Interest expense	(4,615,175)	(4,742,869)	(9,185,167)	(8,501,303)
Loss on sale of asset	(764,008)		(764,008)	
Income tax benefit of taxable REIT subsidiary	150,303		137,016	
Minority interest in income of consolidated subsidiaries	(37,986)	(51,930)	(75,510)	(92,949)
Equity in earnings of unconsolidated entities	61,749	126,556	149,722	202,351
Limited Partners' interests in the continuing operations of the Operating Partnership	(454,117)	(701,701)	(989,574)	(1,394,377)
Income from continuing operations	1,540,371	1,575,774	3,312,918	3,176,839
Discontinued operations, net of Limited Partners' interests		175,165		388,759
Net income	\$ 1,540,371	\$ 1,750,939	\$ 3,312,918	\$ 3,565,598
Income per common share - basic:				
Continuing operations	\$ 0.05	\$ 0.08	\$ 0.12	\$ 0.17
Discontinued operations		0.01		0.02
	\$ 0.05	\$ 0.09	\$ 0.12	\$ 0.19
Income per common share - diluted:				
Continuing operations	\$ 0.05	\$ 0.08	\$ 0.12	\$ 0.17
Discontinued operations		0.01		\$ 0.02
	\$ 0.05	\$ 0.09	\$ 0.12	\$ 0.19
Weighted average Common Shares outstanding - basic	28,690,680	19,148,267	28,631,389	19,148,267
Weighted average Common Shares outstanding - diluted	28,802,913	19,262,581	28,753,591	19,262,822

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Dividends declared per common share	\$	0.1875	\$	0.1875	\$	0.3750	\$	0.3750
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The accompanying notes are an integral part of these consolidated financial statements.

Kite Realty Group Trust
Consolidated Statements of Cash Flows
(Unaudited)

	Six Months Ended June 30	
	2006	2005
Cash flows from operating activities:		
Net income	\$ 3,312,918	\$ 3,565,599
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of asset	764,008	
Minority interest in income of consolidated subsidiaries	75,510	92,949
Equity in earnings of unconsolidated entities	(149,722)	(202,351)
Limited Partners' interest in Operating Partnership	989,574	1,564,759
Distributions of income from unconsolidated entities	145,198	139,712
Straight-line rent	(958,522)	(538,869)
Depreciation and amortization	16,330,719	11,067,970
Provision for credit losses	193,984	198,865
Compensation expense for equity awards	264,997	172,428
Amortization of debt fair value adjustment	(215,429)	(718,773)
Amortization of in-place lease liabilities	(2,119,611)	(1,801,488)
Minority interest distributions	(492,200)	(47,935)
Changes in assets and liabilities:		
Tenant and other receivables	(2,831,141)	(2,604,193)
Other assets	(8,650,903)	(5,956,329)
Accounts payable, accrued expenses, deferred revenue and other liabilities	3,847,614	3,748,780
Net cash provided by operating activities	10,506,994	8,681,124
Cash flows from investing activities:		
Acquisitions of interests in properties and capital and construction expenditures, net	(75,400,365)	(107,755,646)
Net proceeds from sale of asset	11,068,559	
Change in construction payables	(271,648)	1,029,286
Distributions of capital from unconsolidated entities	162,802	32,288
Net cash used in investing activities	(64,440,652)	(106,694,072)
Cash flows from financing activities:		
Loan proceeds	141,502,357	137,138,440
Loan transaction costs	(836,005)	(1,188,388)
Loan payments	(77,375,959)	(26,354,134)
Proceeds from exercise of stock options	130,000	
Distributions paid - shareholders	(10,753,622)	(7,180,602)
Distributions paid - unitholders	(3,191,865)	(3,185,974)
Net cash provided by financing activities	49,474,906	99,229,342
Net change in cash and cash equivalents	(4,458,752)	1,216,394
Cash and cash equivalents, beginning of period	15,208,835	10,103,176
Cash and cash equivalents, end of period	\$ 10,750,083	\$ 11,319,570

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

Kite Realty Group Trust
Notes to Consolidated Financial Statements
June 30, 2006
(Unaudited)

Note 1. Organization

Kite Realty Group Trust (the Company or REIT), through its majority-owned subsidiary, Kite Realty Group, L.P. (the Operating Partnership), is engaged in the ownership, operation, management, leasing, acquisition, expansion and development of neighborhood and community shopping centers and certain commercial real estate properties. The Company also provides real estate facilities management, construction, development and other advisory services to third parties through its taxable REIT subsidiaries. As of June 30, 2006, the Company owned interests in 48 entities that held operating properties and 11 entities that held development properties in which the Company has an interest. The Company also owned a 282,125 square-foot property (including 157,408 square feet of owned gross leasable area) under construction with a completion commitment from the seller. Of the 60 total properties held at June 30, 2006, two operating properties (Spring Mill Medical and The Centre) were owned through joint ventures and accounted for under the equity method.

Note 2. Basis of Presentation

The accompanying financial statements of Kite Realty Group Trust are presented on a consolidated basis and include all accounts of the Company, the Operating Partnership, the taxable REIT subsidiaries of the Operating Partnership and any variable interest entities (VIEs) in which the Company is the primary beneficiary. The Company consolidates properties that are wholly owned as well as properties it controls but in which it owns less than 100%. Control of a property is demonstrated by:

the Company's ability to manage day-to-day operations,

the Company's ability to refinance debt and sell the property without the consent of any other partner or owner, and

the inability of any other partner or owner to replace the Company.

The Company's management has prepared the accompanying unaudited financial statements pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) may have been condensed or omitted pursuant to such rules and regulations, although management believes that the disclosures are adequate to make the presentation not misleading. The unaudited financial statements as of June 30, 2006 and for the three and six months ended June 30, 2006 and 2005 include, in the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements and related notes thereto included in the Company's 2005 Annual Report on Form 10-K. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the disclosure of contingent assets and liabilities and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from these estimates. The results of operations for the interim periods are not necessarily indicative of the results that may be expected on an annual basis.

Certain reclassifications of prior period amounts were made to conform to the 2006 presentation. These reclassifications had no effect on net income previously reported. In December 2005, the Company sold Mid-America Clinical Labs and, accordingly, has restated prior periods to reflect the activity of this property as discontinued operations.

The Company allocates net operating results of the Operating Partnership based on the partners' respective weighted average ownership interest. The Company adjusts the Limited Partners' interests in the Operating Partnership at the end of each period to reflect their interests in the Operating Partnership. This adjustment is reflected in the Company's shareholders' equity. The Company's and the Limited Partners' interests in the Operating Partnership for the three and six months ended June 30, 2006 and 2005 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Company's weighted average interest in Operating Partnership	77.1%	69.3%	77.0%	69.5%
Limited Partners' weighted average interest in Operating Partnership	22.9%	30.7%	23.0%	30.5%
Company's interest in Operating Partnership at June 30	77.4%	69.3%	77.4%	69.3%
Limited Partners' interest in Operating Partnership at June 30	22.6%	30.7%	22.6%	30.7%

Note 3. Earnings Per Share

Basic earnings per share is calculated based on the weighted average number of shares outstanding during the period. Diluted earnings per share is determined based on the weighted average number of shares outstanding combined with the incremental average shares that would have been outstanding assuming all potentially dilutive shares were converted into common shares as of the earliest date possible. Share options are accounted for based on their fair market value at the date of grant and amortized over the vesting periods. Expense related to the Company's share plans was approximately \$159,000 and \$110,000 for the three months ended June 30, 2006 and 2005, respectively, and approximately \$265,000 and \$172,000 for the six months ended June 30, 2006 and 2005, respectively.

Potential dilutive securities include outstanding share options and units of limited partnership of the Operating Partnership, which may be exchanged for shares under certain circumstances. The only securities that had a potentially dilutive effect for the three and six months ended June 30, 2006 and 2005 were outstanding share options.

The effect of conversion of units of the Operating Partnership is not reflected in diluted shares as they are exchangeable for common shares on a one-for-one basis. The income allocable to such units is allocated on the same basis and reflected as Limited Partners' interests in the Operating Partnership in the accompanying consolidated statements of operations. Therefore, the assumed conversion of these units would have no effect on the determination of earnings per share. The number of weighted average units is set forth below:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Weighted average units of Operating Partnership	8,515,168	8,495,931	8,566,630	8,390,680

Note 4. Mortgage and Other Indebtedness

Mortgage and other indebtedness consisted of the following at June 30, 2006 and December 31, 2005:

	Balance at	
	June 30, 2006	December 31, 2005
Line of credit	\$ 111,550,000	\$ 92,950,000
Mortgage notes payable - fixed rate	228,290,637	203,782,448
Construction notes payable - variable rate	71,724,369	70,652,913
Mortgage notes payable - variable rate	25,106,028	5,159,274
Net premiums on acquired debt	2,485,773	2,701,202
Total mortgage and other indebtedness	\$ 439,156,807	\$ 375,245,837

Indebtedness, including weighted average maturities and weighted average interest rates at June 30, 2006, is summarized below:

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June 30, 2006

	Amount	Weighted Average Maturity (Years)	Weighted Average Interest Rate	Percentage of Total
Fixed rate debt	\$ 228,290,637	7.4	6.03%	52%
Floating rate debt (hedged)	50,000,000	1.1	5.57%	12%
Total fixed rate debt	278,290,637	6.3	5.95%	64%
Construction debt	71,724,369	1.5	6.99%	16%
Other variable rate debt	136,656,028	1.9	6.79%	31%
Floating rate debt (hedged)	(50,000,000)	-1.1	-6.70%	-11%
Total variable rate debt	158,380,397	1.9	6.91%	36%
Net premiums on acquired debt	2,485,773	N/A	N/A	N/A
Total debt	\$ 439,156,807	4.5	6.30%	100%

Mortgage and construction loans are collateralized by certain real estate properties and are generally due in monthly installments of interest and principal and mature over various terms through 2022. Variable interest rates on mortgage and construction loans are based on LIBOR plus 150 to 275 basis points. Fixed interest rates on mortgage loans range from 5.11% to 7.65%.

During the second quarter of 2006, the Company had the following activity in its indebtedness:

Refinanced the bridge loan on the Sunland Town Centre property. The new debt has a principal amount of \$25.0 million, bears interest at a fixed interest rate of 6.01% and matures on July 1, 2016. The refinanced bridge loan bore interest at a rate of LIBOR plus 1.85%. The Company used excess proceeds of approximately \$8.5 million from this refinancing to pay down the revolving credit facility;

Borrowed approximately \$19.7 million against the Traders Point property and the revolving credit facility to fund the initial purchase price for the acquisition of Kedron Village, a 282,125 square-foot community shopping center under construction (157,408 square feet of which is owned gross leasable area) in Peachtree, Georgia, a suburb of Atlanta. The remaining \$14.9 million of the purchase price was paid on July 31, 2006;

Borrowed approximately \$7.3 million on its revolving credit facility and contributed it for a 60% interest in a joint venture that acquired approximately 14 acres of land in Oldsmar, Florida, a suburb of Tampa; and

Used the net proceeds from the sale of the Naperville Marketplace Marsh Supermarkets asset to pay off the balance of the related indebtedness of approximately \$11.6 million.

In addition to the preceding activity, the Company also used proceeds from its revolving credit facility and other borrowings totaling approximately \$26.5 million for development and general working capital purposes. Loan payoffs not mentioned above were approximately \$1.6 million and scheduled principal payments totaled approximately \$0.6 million during the second quarter of 2006.

As of June 30, 2006, the Company's borrowing base under its revolving credit facility was approximately \$125.9 million, of which approximately \$13.3 million was available for additional borrowings. Borrowings under the facility bear interest at a floating rate of LIBOR plus 135 to 160 basis points, depending on the Company's leverage ratio. As of June 30, 2006, there were 31 properties available to be added to the borrowing base (upon completion of the lender's due diligence process). Such additional borrowing base is required for potential additional borrowings up to the credit facility's full capacity of \$150 million (before considering the facility's expansion feature to a maximum of \$250 million).

The following properties are encumbered by the revolving credit facility as of June 30, 2006: Silver Glen Crossing, Glendale Mall, Hamilton Crossing, Kings Lake Square, Waterford Lakes, Publix at Acworth, PEN Products, Union Station Parking Garage, Galleria Plaza, Cedar Hill Village, Shops at Eagle Creek, Burlington Coat Factory, Eastgate Pavilion, Four Corner Square, Market Street Village and Stoney Creek Commons.

As of June 30, 2006, the Company had entered into letters of credit totaling approximately \$10.0 million, of which \$1.1 million reduces availability under the revolving credit facility. At that date, there were no amounts advanced against these instruments.

Note 5. Derivative Instruments, Hedging Activities and Other Comprehensive Income

At June 30, 2006, derivatives with a fair value of \$677,878 were included in other assets. The change in net unrealized income (loss) for derivatives designated as cash flow hedges is recorded in shareholders' equity as other comprehensive income (loss). No hedge ineffectiveness on cash flow hedges was recognized during 2006 and 2005. The expiration date of the Company's cash flow hedges is August 1, 2007. Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to earnings over time as the hedged items are recognized in earnings.

The Company does not use derivatives for trading or speculative purposes nor does the Company currently have any derivatives that are not designated as hedges.

The following sets forth comprehensive income for the three and six months ended June 30, 2006 and 2005:

	Three Months Ended June 30		Six Months Ended June 30	
	2006	2005	2006	2005
Net income	\$ 1,540,371	\$ 1,750,938	\$ 3,312,918	\$ 3,565,598
Other comprehensive income (loss) ⁽¹⁾	67,507	(207,573)	250,821	(372,995)
Comprehensive income	\$ 1,607,878	\$ 1,543,365	\$ 3,563,739	\$ 3,192,603

⁽¹⁾ Represents the changes in the fair value of derivative instruments accounted for as cash flow hedges.

Note 6. Shareholders' Equity

On May 18, 2006, Al Kite, John Kite, Tom McGowan and Paul Kite converted 214,049 units of the Operating Partnership into the same number of common shares. These individuals acquired these units in exchange for 13.8 acres of undeveloped land in Naples, Florida that the Company acquired from these individuals in March 2005. The conversion was recorded at the land's carryover basis of approximately \$3.1 million.

On May 4, 2006, the Company's Board of Trustees declared a cash distribution of \$0.1875 per common share for the second quarter of 2006. Simultaneously, the Company's Board of Trustees declared a cash distribution of \$0.1875 per Operating Partnership unit for the same period. These distributions were accrued as of June 30, 2006 and were paid on July 18, 2006.

Note 7. Segment Data

The operations of the Company are aligned into two business segments: (1) real estate operation and development and (2) construction and advisory services. Segment data of the Company for the three and six months ended June 30, 2006 and 2005 are as follows:

Three Months Ended June 30, 2006	Real Estate Operation and Development	Construction and Advisory Services	Subtotal	Intersegment Eliminations and Other	Total
Revenues	\$ 22,231,695	\$ 21,543,781	\$ 43,775,476	\$ (12,834,752)	\$ 30,940,724
Operating expenses, cost of construction and services, general, administrative and other	7,733,547	20,208,132	27,941,679	(12,043,474)	15,898,205
Depreciation and amortization	7,826,347	16,567	7,842,914		7,842,914
Operating income	6,671,801	1,319,082	7,990,883	(791,278)	7,199,605
Interest expense	(4,615,175)	(126,274)	(4,741,449)	126,274	(4,615,175)
Loss on sale of asset	(764,008)		(764,008)		(764,008)
	305,603	(155,300)	150,303		150,303

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Income tax (expense) benefit of taxable REIT subsidiary					
Minority interest in income of consolidated subsidiaries	(31,401)	(6,585)	(37,986)		(37,986)
Equity in earnings of unconsolidated entities	61,749		61,749		61,749
Limited Partners' interests in the continuing operations of the Operating Partnership	(454,117)		(454,117)		(454,117)
Net income	\$ 1,174,452	\$ 1,030,923	\$ 2,205,375	\$ (665,004)	\$ 1,540,371
Total assets	\$ 837,966,764	\$ 43,199,693	\$ 881,166,457	\$ (23,650,128)	\$ 857,516,329

Three Months Ended June 30, 2005	Real Estate Operation and Development	Construction and Advisory Services	Subtotal	Intersegment Eliminations and Other	Total
Revenues	\$ 13,564,212	\$ 12,117,179	\$ 25,681,391	\$ (3,384,923)	\$ 22,296,468
Operating expenses, cost of construction and services, general, administrative and other	1,978,598	11,784,090	13,762,688	(3,768,515)	9,994,173
Depreciation and amortization	5,333,730	22,847	5,356,577		5,356,577
Operating income	6,251,884	310,242	6,562,126	383,592	6,945,718
Interest expense	(4,774,192)	(102,781)	(4,876,973)	134,104	(4,742,869)
Minority interest in income of consolidated subsidiaries	(51,930)		(51,930)		(51,930)
Equity in earnings of unconsolidated entities	126,556		126,556		126,556
Limited Partners' interests in the continuing operations of the Operating Partnership	(701,701)		(701,701)		(701,701)
Discontinued operations, net of Limited Partners' interests	175,165		175,165		175,165
Net income	\$ 1,025,782	\$ 207,461	\$ 1,233,243	\$ 517,696	\$ 1,750,939
Total assets	\$ 685,772,053	\$ 28,349,078	\$ 714,121,131	\$ (18,606,627)	\$ 695,514,504

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Six Months Ended June 30, 2006	Real Estate Operation and Development	Construction and Advisory Services	Subtotal	Intersegment Eliminations and Other	Total
Revenues	\$ 43,026,549	\$ 35,481,158	\$ 78,507,707	\$ (19,133,925)	\$ 59,373,782
Operating expenses, cost of construction and services, general, administrative and other	14,644,943	33,577,800	48,222,743	(18,254,549)	29,968,194
Depreciation and amortization	15,331,655	33,494	15,365,149		15,365,149
Operating income	13,049,951	1,869,864	14,919,815	(879,376)	14,040,439
Interest expense	(9,185,151)	(266,177)	(9,451,328)	266,161	(9,185,167)
Loss on sale of asset	(764,008)		(764,008)		(764,008)
Income tax (expense) benefit of taxable REIT subsidiary	305,603	(168,587)	137,016		137,016
Minority interest in income of consolidated subsidiaries	(68,925)	(6,585)	(75,510)		(75,510)
Equity in earnings of unconsolidated entities	149,722		149,722		149,722
Limited Partners' interests in the continuing operations of the Operating Partnership	(802,055)	(328,558)	(1,130,614)	141,039	(989,574)
Net income	\$ 2,685,137	\$ 1,099,957	\$ 3,785,093	\$ (472,176)	\$ 3,312,918
Total assets	\$ 837,966,764	\$ 43,199,693	\$ 881,166,457	\$ (23,650,128)	\$ 857,516,329
Six Months Ended June 30, 2005	Real Estate Operation and Development	Construction and Advisory Services	Subtotal	Intersegment Eliminations and Other	Total
Revenues	\$ 29,797,010	\$ 23,772,644	\$ 53,569,654	\$ (12,069,330)	\$ 41,500,324
Operating expenses, cost of construction and services, general, administrative and other	7,241,117	23,199,547	30,440,664	(12,079,367)	18,361,297
Depreciation and amortization	10,134,706	41,204	10,175,910		10,175,910
Operating income	12,421,187	531,893	12,953,080	10,037	12,963,117
Interest expense	(8,501,082)	(134,325)	(8,635,407)	134,104	(8,501,303)
Minority interest in income of consolidated subsidiaries	(92,949)		(92,949)		(92,949)
Equity in earnings of unconsolidated entities	202,351		202,351		202,351
Limited Partners' interests in the continuing operations of the Operating Partnership	(1,229,156)	(121,258)	(1,350,414)	(43,963)	(1,394,377)
Discontinued operations, net of Limited Partners' interests	388,759		388,759		388,759
Net income	\$ 3,189,110	\$ 276,310	\$ 3,465,420	\$ 100,178	\$ 3,565,598
Total assets	\$ 685,772,053	\$ 28,349,078	\$ 714,121,131	\$ (18,606,627)	\$ 695,514,504

Note 8. Sale of Asset

In June 2006, the Company terminated its lease with Marsh Supermarkets and sold the store at its Naperville Marketplace property to Caputo's Fresh Markets and recorded a loss on the sale of approximately \$0.8 million (approximately \$458,000 after tax). The total proceeds from these transactions of \$14 million included a \$2.5 million note from Marsh with monthly installments payable through June 30, 2008, and \$2.5 million of cash received from the termination of the Company's lease with Marsh. The note is guaranteed by the parent company of Marsh.

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Supermarkets. Marsh Supermarkets at Naperville Marketplace was owned by the Company's taxable REIT subsidiary. A portion of the proceeds from this sale were used to pay off related indebtedness of approximately \$11.6 million. The Company will continue to develop the remainder of the Naperville Marketplace development property.

Note 9. New Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109, Accounting for Income Taxes. FIN No. 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company does not believe the adoption of FIN No. 48 will have a material impact on the Company's financial position or results of operations.

In November 2005, the FASB issued FASB Staff Position (FSP) No. SFAS 115-1 and SFAS 124-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments. This FSP amends SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities and SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations, and Accounting Principles Board (APB) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock.

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This FSP provides guidance on the determination of when an investment is considered impaired, whether that impairment is other-than-temporary, and the measurement of an impairment loss. This FSP also requires disclosure about unrealized losses that have not been recognized as other-than-temporary impairments. The guidance in the FSP is effective in reporting periods beg