

KITE REALTY GROUP TRUST
Form 10-Q
August 11, 2008

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, 2008

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, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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 8, 2008 was 29,169,100 (\$.01 par value)

KITE REALTY GROUP TRUST

QUARTERLY REPORT ON FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008

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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, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. 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 cannot be anticipated. Future events and actual results, performance, transactions or achievements, financial or otherwise, may differ materially from the results, performance, transactions or achievements, financial or otherwise, 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;

property ownership and management risks;

financing risks, including access to capital on desirable terms;

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, 2007, 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****Condensed Consolidated Balance Sheets**

(Unaudited)

	June 30,	December 31,
	2008	2007
	<hr/>	<hr/>
Assets:		
Investment properties, at cost:		
Land	\$ 233,517,507	\$ 210,486,125
Land held for development	23,622,458	23,622,458
Buildings and improvements	677,790,211	624,500,501
Furniture, equipment and other	4,904,452	4,571,354
Construction in progress	170,485,594	187,006,760
	<hr/>	<hr/>
	1,110,320,222	1,050,187,198
Less: accumulated depreciation	(94,189,670)	(84,603,939)
	<hr/>	<hr/>
	1,016,130,552	965,583,259
Cash and cash equivalents	12,004,345	19,002,268
Tenant receivables, including accrued straight-line rent of \$7,116,165 and \$6,653,244, respectively, net of allowance for uncollectible accounts	15,615,661	17,200,458
Other receivables	9,199,627	7,124,485
Investments in unconsolidated entities, at equity	1,060,400	1,079,937
Escrow deposits	13,304,137	14,036,877
Deferred costs, net	20,385,519	20,563,664
Prepaid and other assets	4,092,230	3,643,696
	<hr/>	<hr/>
Total Assets	\$ 1,091,792,471	\$ 1,048,234,644
	<hr/>	<hr/>
Liabilities and Shareholders Equity:		
Mortgage and other indebtedness	\$ 690,560,307	\$ 646,833,633
Accounts payable and accrued expenses	44,361,820	36,173,195
Deferred revenue and other liabilities	24,826,644	26,127,043
Cash distributions and losses in excess of net investment in unconsolidated entities, at equity	1,075,497	234,618
Minority interest	4,418,426	4,731,211
	<hr/>	<hr/>
Total Liabilities	765,242,694	714,099,700
Commitments and contingencies		
Limited Partners interests in Operating Partnership	72,494,051	74,512,093
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, 29,168,350 and 28,981,594 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	291,684	289,816
Additional paid in capital and other	294,664,427	293,897,673
Accumulated other comprehensive loss	(2,678,655)	(3,122,482)
Accumulated deficit	(38,221,730)	(31,442,156)
	<hr/>	<hr/>
Total Shareholders Equity	254,055,726	259,622,851

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Total Liabilities and Shareholders' Equity	<u>\$ 1,091,792,471</u>	<u>\$ 1,048,234,644</u>
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The accompanying notes are an integral part of these condensed consolidated financial statements.

Kite Realty Group Trust

Condensed Consolidated Statements of Operations

(Unaudited)

	Three Months Ended June 30,		Six Month Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Minimum rent	\$ 18,798,894	\$ 18,498,348	\$ 37,178,508	\$ 35,732,300
Tenant reimbursements	4,731,314	4,662,010	9,941,859	9,340,724
Other property related revenue	2,979,574	2,286,084	8,136,659	4,738,019
Construction and service fee revenue	8,311,318	10,176,315	12,599,840	16,046,868
Total revenue	34,821,100	35,622,757	67,856,866	65,857,911
Expenses:				
Property operating	4,026,890	3,519,107	8,506,638	7,609,022
Real estate taxes	3,382,051	3,077,480	6,549,500	5,715,545
Cost of construction and services	7,024,400	9,521,852	10,788,634	14,587,226
General, administrative, and other	1,259,407	1,628,848	2,969,356	3,055,924
Depreciation and amortization	8,466,474	8,111,904	16,620,331	16,839,293
Total expenses	24,159,222	25,859,191	45,434,459	47,807,010
Operating income	10,661,878	9,763,566	22,422,407	18,050,901
Interest expense	(7,351,499)	(6,175,084)	(14,605,065)	(12,297,428)
Income tax expense of taxable REIT subsidiary	(251,858)	(7,991)	(1,405,086)	(262,606)
Other income	31,676	90,052	96,908	199,595
Minority interest in income of consolidated subsidiaries	(19,756)	(247,465)	(15,600)	(249,221)
Equity in earnings of unconsolidated entities	86,121	99,579	147,295	169,875
Limited Partners' interests in the Operating Partnership	(697,273)	(781,376)	(1,474,271)	(1,251,279)
Income from continuing operations	2,459,289	2,741,281	5,166,588	4,359,837
Operating income from discontinued operations, net of Limited Partners' interests		24,846		44,340
Net income	\$ 2,459,289	\$ 2,766,127	\$ 5,166,588	\$ 4,404,177
Income per common share - basic				
Continuing operations	\$ 0.08	\$ 0.10	\$ 0.18	\$ 0.15
Discontinued operations				
	\$ 0.08	\$ 0.10	\$ 0.18	\$ 0.15
Income per common share - diluted				
Continuing operations	\$ 0.08	\$ 0.09	\$ 0.18	\$ 0.15
Discontinued operations				
	\$ 0.08	\$ 0.09	\$ 0.18	\$ 0.15
Weighted average common shares outstanding - basic	29,147,361	28,892,920	29,088,327	28,876,135

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Weighted average common shares outstanding - diluted	<u>29,269,062</u>	<u>29,219,227</u>	<u>29,161,590</u>	<u>29,197,925</u>
Dividends declared per common share	\$ 0.205	\$ 0.195	\$ 0.410	\$ 0.390

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

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Kite Realty Group Trust

Condensed Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30,	
	2008	2007
Cash flows from operating activities:		
Net income	\$ 5,166,588	\$ 4,404,177
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest in income of consolidated subsidiaries	15,600	249,221
Equity in earnings of unconsolidated entities	(147,295)	(169,875)
Limited Partners' interests in Operating Partnership	1,474,271	1,264,005
Straight-line rent	(462,921)	(508,078)
Depreciation and amortization	17,133,016	17,441,629
Provision for credit losses	318,904	364,033
Compensation expense for equity awards	412,298	385,744
Amortization of debt fair value adjustment	(215,429)	(215,429)
Amortization of in-place lease liabilities	(1,625,953)	(2,822,530)
Minority interest distributions	(446,286)	(123,000)
Distributions of income from unconsolidated entities	243,105	251,272
Changes in assets and liabilities:		
Tenant receivables	1,728,814	1,430,761
Deferred costs and other assets	(4,176,518)	5,335,891
Accounts payable, accrued expenses, deferred revenue and other liabilities	2,267,285	1,537,153
Net cash provided by operating activities	21,685,479	28,824,974
Cash flows from investing activities:		
Acquisitions of interests in properties and capital expenditures, net	(57,918,615)	(65,896,942)
Change in construction payables	(704,888)	1,264,613
Distributions of capital from unconsolidated entities	725,235	106,728
Net cash used in investing activities	(57,898,268)	(64,525,601)
Cash flows from financing activities:		
Offering proceeds, net of offering costs	846,778	495,814
Loan proceeds	62,773,357	171,077,574
Loan transaction costs	(253,043)	(1,203,256)
Loan payments	(18,831,255)	(129,681,684)
Proceeds from exercise of stock options		11,671
Purchase of Limited Partner's interests		(55,803)
Distributions paid - shareholders	(11,901,897)	(11,256,990)
Distributions paid - unitholders	(3,419,074)	(3,275,449)
Net cash provided by financing activities	29,214,866	26,111,877
Net change in cash and cash equivalents	(6,997,923)	(9,588,750)
Cash and cash equivalents, beginning of period	19,002,268	23,952,594
Cash and cash equivalents, end of period	\$ 12,004,345	\$ 14,363,844

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

Kite Realty Group Trust

Notes to Condensed Consolidated Financial Statements

June 30, 2008

(Unaudited)

Note 1. Organization

Kite Realty Group Trust (the Company), through its majority-owned subsidiary, Kite Realty Group, L.P. (the Operating Partnership), is engaged in the ownership, operation, management, leasing, acquisition, construction, expansion and development of neighborhood and community shopping centers and certain commercial real estate properties in selected growth markets in the United States. The Company also provides real estate facilities management, construction, development and other advisory services to third parties through its taxable REIT subsidiary. At June 30, 2008, the Company owned interests in 56 operating properties (consisting of 51 retail properties, four commercial operating properties and an associated parking garage) and owned 11 properties under development or redevelopment (including the Glendale Town Center, Shops at Eagle Creek, and Bolton Plaza, all of which are undergoing a major redevelopment and Rivers Edge Shopping Center, a shopping center purchased in February 2008 that the Company is in the process of redeveloping (see Notes 4 and 5)). Of the 67 total properties held at June 30, 2008, the Company owned a controlling interest in all but two operating properties and one parcel of pre-development land (collectively the unconsolidated joint venture properties), all three of which are accounted for under the equity method.

Note 2. Basis of Presentation

The accompanying financial statements of the Company are presented on a consolidated basis and include all accounts of the Company, the Operating Partnership, the taxable REIT subsidiary 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 a 100% interest. Control of a property is demonstrated by:

- our ability to manage day-to-day operations of the property;
- our ability to refinance debt and sell the property without the consent of any other partner or owner;
- the inability of any other partner or owner to replace us as a manager of the property; or
- being the primary beneficiary of a variable interest entity.

As of June 30, 2008 the Company had investments in seven joint ventures that are VIEs in which the Company is the primary beneficiary. As of June 30, 2008, these VIEs had total debt of approximately \$107 million which is secured by assets of the VIEs totaling approximately \$181 million. The Operating Partnership guarantees the debt of these VIEs.

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, 2008 and for the three and six months ended June 30, 2008 and 2007 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 2007 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 prior year amounts related to discontinued operations have been reclassified to conform to the current year presentation. Such reclassifications had no effect on net income previously reported.

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

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Company's and the Limited Partners' interests in the Operating Partnership for the three and six months ended June 30, 2008 and 2007 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Company's weighted average diluted interest in Operating Partnership	77.8%	77.7%	77.8%	77.7%
Limited Partners' weighted average diluted interests in Operating Partnership	22.2%	22.3%	22.2%	22.3%

The Company's and the Limited Partners' interests in the Operating Partnership at June 30, 2008 and December 31, 2007 were as follows:

	Balance at	
	June 30,	December 31,
	2008	2007
Company's interest in Operating Partnership	77.8%	77.7%
Limited Partners' interests in Operating Partnership	22.2%	22.3%

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.

Potentially dilutive securities include outstanding share options, units in the Operating Partnership, which may be exchanged for cash or shares under certain circumstances, and deferred share units, which may be credited to the accounts of non-employee trustees in lieu of the payment of cash compensation or the issuance of common shares to such trustees. The only securities that had a potentially dilutive effect for the three and six months ended June 30, 2008 and 2007 were outstanding share options and deferred share units, the dilutive effect of which was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Dilutive effect of outstanding share options to outstanding common shares	111,713	321,660	63,921	317,668
Dilutive effect of deferred share units to outstanding common shares	9,988	4,647	9,342	4,122
Total dilutive effect	121,701	326,307	73,263	321,790

Note 4. Significant Acquisition Activities

2008 Acquisitions

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The Company made the following significant acquisitions in the first six months of 2008:

On April 4, 2008, one of the Company's consolidated joint ventures, in which the Company owns an 85% interest, purchased approximately 4 acres of land in Indianapolis, Indiana, commonly known as Pan Am Plaza, for approximately \$3.8 million. The Company funded the joint venture's purchase with borrowings from the Company's unsecured revolving credit facility. This land is situated across the street from the Convention Center and adjacent to the recently constructed Indianapolis Colts football stadium. The joint venture intends to develop restaurants and retail space on this property;

In February 2008, the Company purchased Rivers Edge Shopping Center, a 111,000 square foot shopping center located in Indianapolis, Indiana, for \$18.3 million, with the intent to redevelop it (See Note 5). The Company utilized approximately \$2.7 million of proceeds from the November 2007 sale of its 176th & Meridian property. The remaining purchase price of \$15.6 million was funded initially through a draw on the Company's unsecured credit facility and subsequently refinanced with a variable rate loan bearing interest at LIBOR + 125 basis points and maturing on February 3, 2009, with a one-year extension option. The Company is in the process of redeveloping this property. The results of operations of 176th & Meridian have been reflected as discontinued operations for the three and six month periods ended June 30, 2007; and

In February 2008, the Company acquired the remaining 15% economic interest from its joint venture partner in Bolton Plaza in Jacksonville, Florida for \$0.3 million. The Company is currently in the process of redeveloping this property.

The Company allocates the purchase price of properties to tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of Statement of Financial Accounting Standards No 141, *Business Combinations* (SFAS No. 141). The fair value of real estate acquired is allocated to land and buildings, while the fair value of in-place leases, consisting of above-market and below-market rents and other intangibles, is allocated to intangible assets and liabilities. Purchase price allocations for the Rivers Edge Shopping Center are preliminary until finalized in 2009.

Note 5. Redevelopment Activity

Glendale Town Center

In 2007, the Company began to redevelop the Glendale Mall property in Indianapolis, Indiana into a 685,000 total square foot power center (renamed Glendale Town Center). As of June 30, 2008, this center was 88% leased. This center's primary anchor, a new 129,000 square foot (non-owned) Target, opened in July 2008. The center also includes Macy's, Lowe's Home Improvement (non-owned), Staples, Kerasotes Theatre, Panera Bread, the Indianapolis-Marion County Public Library, a number of new small shops and professional office spaces and one additional outlot. The Company currently anticipates the majority of the remaining construction work to be completed by the end of 2008.

Shops at Eagle Creek

The Company is currently redeveloping the space formerly occupied by Winn-Dixie at the Shops at Eagle Creek in Naples, Florida into two smaller spaces. Staples has signed a lease for approximately 25,800 square feet of the space and opened for business in August 2008. The Company is continuing to market the remaining space for lease. The Company has also completed a number of additional renovations at the property through the first half of 2008, including a new roof on the Staples and remaining junior anchor spaces, new store fronts, masonry additions to the façade and columns as well as new parking lot pavement, parking bumpers and striping. The Company anticipates its total investment in the redevelopment at Shops at Eagle Creek will be approximately \$4 million.

Bolton Plaza

The Company is in the process of redeveloping its Bolton Plaza Shopping Center in Jacksonville, Florida. The former anchor tenant's lease at the shopping center expired in May 2008 and was not renewed. The Company is currently analyzing several redevelopment plans.

Rivers Edge

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The Company is in the process of redeveloping its Rivers Edge Shopping Center in Indianapolis, Indiana. The current anchor tenant's lease at this property will expire in March 2010 and the Company is marketing the space to potential anchor tenants for the center upon that anchor tenant's departure. The Company currently anticipates its total investment in the redevelopment at Rivers Edge will be approximately \$5 million.

Note 6. Mortgage and Other Indebtedness

Mortgage and other indebtedness consisted of the following at June 30, 2008 and December 31, 2007:

	Balance at	
	June 30,	December 31,
	2008	2007
Line of credit	\$ 168,574,024	\$ 152,774,024
Mortgage notes payable - fixed rate	332,401,199	337,544,839
Construction notes payable - variable rate	163,064,035	150,128,993
Mortgage notes payable - variable rate	24,896,992	4,546,291
Net premiums on acquired debt	1,624,057	1,839,486
	\$ 690,560,307	\$ 646,833,633

Consolidated indebtedness, including weighted average maturities and weighted average interest rates at June 30, 2008, is summarized below:

	Amount	Weighted Average Maturity (Years)	Weighted Average Interest Rate	Percentage of Total
Fixed rate debt	\$ 332,401,199	6.5	6.01%	48%
Floating rate debt (hedged)	133,700,000	1.7	5.96%	20%
	466,101,199	5.1	5.99%	68%
Total fixed rate debt	466,101,199	5.1	5.99%	68%
Construction debt	163,064,035	0.9	3.91%	24%
Other variable rate debt	193,471,016	2.4	3.72%	28%
Floating rate debt (hedged)	(133,700,000)	-1.7	-3.80%	-20%
	222,835,051	1.7	3.81%	32%
Total variable rate debt	222,835,051	1.7	3.81%	32%
Net premiums on acquired debt	1,624,057	N/A	N/A	N/A
	\$ 690,560,307	4.0	5.29%	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 a spread of 115 to 185 basis points. At June 30, 2008, the one-month LIBOR interest rate was 2.46%. Fixed interest rates on mortgage loans range from 5.11% to 7.65%.

For the six months ended June 30, 2008, the Company had loan borrowing proceeds of \$62.8 million and loan repayments of \$18.8 million. The major components of this activity are as follows:

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In April 2008, one of the Company's consolidated joint ventures, in which the Company owns an 85% interest, purchased Pan Am Plaza (see Note 4), for approximately \$3.8 million. The Company funded the joint venture's purchase with borrowings from the Company's unsecured revolving credit facility;

In February 2008, the Company purchased Rivers Edge Shopping Center (see Note 4) with a \$15.6 million draw on the Company's unsecured revolving credit facility and \$2.7 million of the proceeds from the November 2007 sale of its 176th

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& Meridian property. Subsequently, the Company placed \$16.6 million of variable rate debt on this property with an interest rate of LIBOR + 1.25% and a maturity date of February 3, 2009, the proceeds of which were used to pay down the unsecured revolving credit facility;

In addition to the preceding activity, the Company used proceeds from its unsecured revolving credit facility and other borrowings (exclusive of repayments) totaling approximately \$26.9 million for development, redevelopment, acquisitions and general working capital purposes; and

The Company made scheduled principal payments totaling approximately \$1.5 million during the six months ended June 30, 2008.

In January and February 2008, the Company extended the maturity dates from 2008 to 2009 on its variable rate debt at a total of six of its consolidated properties (Fishers Station, Bayport Commons, Bridgewater Marketplace, Gateway Shopping Center, Red Bank Commons, and South Elgin Commons). In addition, in February 2008, the Company refinanced fixed rate debt at its Indiana State Motor Pool commercial property, replacing the fixed rate with a variable rate of LIBOR + 1.35% and extended the maturity date from March 2008 to November 2011. Also in January 2008, one of the Company's unconsolidated joint venture properties, Parkside Town Commons, extended the maturity date on its variable rate construction loan from 2008 to 2009. As a result of these activities, the Company extended the maturity dates to 2009 or later on approximately \$83.4 million of indebtedness, including the Company's share of unconsolidated indebtedness. Subject to certain conditions, the Company also has the option to further extend the maturity date of approximately \$75 million of this indebtedness for an additional year.

In February 2007, the Operating Partnership entered into an amended and restated four-year \$200 million unsecured revolving credit facility (the unsecured facility) with a group of lenders and Key Bank National Association, as agent. The Company and several of the Operating Partnership's subsidiaries are guarantors of the Operating Partnership's obligations under the unsecured facility. The unsecured facility has a maturity date of February 20, 2011, with a one-year extension option. Initial proceeds of approximately \$118 million were drawn from the unsecured facility to repay the principal amount outstanding under the Company's then-existing secured revolving credit facility and retire the secured revolving credit facility. Borrowings under the unsecured facility bear interest at a floating interest rate of LIBOR plus 115 to 135 basis points, depending on the Company's leverage ratio. The unsecured facility has a 0.125% to 0.20% commitment fee applicable to the average daily unused amount. Subject to certain conditions, including the prior consent of the lenders, the Company has the option to increase its borrowings under the unsecured facility to a maximum of \$400 million. The unsecured facility also includes a short-term borrowing line of \$25 million with a variable interest rate. Borrowings under the short-term line may not be outstanding for more than five days.

The amount that the Company may borrow under the unsecured facility is based on the value of properties in its unencumbered property pool. The Company currently has 46 unencumbered assets, 45 of which are wholly owned and used to calculate the amount available for borrowing under the unsecured credit facility and one of which is a joint venture asset. The major unencumbered assets include: Broadstone Station, Circuit City Plaza, Courthouse Shadows, Eagle Creek Lowes, Eastgate Pavilion, Four Corner Square, Glendale Town Center, Hamilton Crossing, King's Lake, Market Street Village, PEN Products, Publix at Acworth, Shops at Eagle Creek, Silver Glen, Union Station Parking Garage, Wal-Mart Plaza, and Waterford Lakes. As of June 30, 2008, the total amount available for borrowing under the unsecured facility was approximately \$30 million. See Note 12 for information regarding events occurring subsequent to June 30, 2008.

Note 7. Shareholders' Equity

On May 6, 2008, the Company's Board of Trustees declared a regular cash distribution of \$0.205 per common share for the second quarter of 2008. Simultaneously, the Company's Board of Trustees declared a cash distribution of \$0.205 per Operating Partnership unit for the same period. These distributions were accrued as of June 30, 2008 and were paid on July 17, 2008 to shareholders and unitholders of record as of July 7, 2008.

In March 2008, the Compensation Committee of the Company's Board of Trustees approved a long-term equity incentive compensation award to three of the Company's executive officers. These awards were payable in restricted shares or share options, at the election of the recipient, with options being valued using a Black-Scholes valuation methodology. Each of the individuals elected to receive share options, and as a result, a total of 429,692 share options were issued with an exercise price of \$12.29. These options will vest ratably over five years beginning on the first anniversary date of the grant.

Note 8. Derivative Instruments, Hedging Activities and Other Comprehensive Income

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The Company is exposed to capital market risk, including changes in interest rates. In order to manage volatility relating to interest rate risk, the Company enters into interest rate hedging transactions from time to time. The Company does not use derivatives for trading or speculative purposes nor does the Company currently have any derivatives that are not designated as cash flow hedges. As of June 30, 2008, the Company was party to six consolidated cash flow hedge agreements for a total of \$133.7 million, which fix interest rates at 5.13% to 6.32% and mature over various terms through 2011. In addition, one of the Company's unconsolidated joint venture properties is party to a cash flow hedge agreement for \$42 million, of which the Company's share is \$16.8 million, that fix the interest rate at 5.60% and matures in March 2009.

The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards No. 157, Fair Value Measurement (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 applies to reported balances that are required or permitted to be measured at fair value under existing accounting pronouncements; accordingly, the standard does not require any new fair value measurements of reported balances.

SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, SFAS No. 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

To comply with the provisions of SFAS No. 157, the Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of June 30, 2008, the Company has assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives. As a result, the Company has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy.

The only assets or liabilities that the Company records at fair value on a recurring basis are interest rate hedge agreements. The fair value of the Company's share of the consolidated interest rate hedge agreements as of June 30, 2008 was approximately \$3.4 million.

The following sets forth comprehensive income for the three and six months ended June 30, 2008 and 2007:

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	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	\$ 2,459,289	\$ 2,766,127	\$ 5,166,588	\$ 4,404,177
Other comprehensive income, net of Limited Partners' interests	2,325,875	257,953	443,827	39,961
Comprehensive income	\$ 4,785,164	\$ 3,024,080	\$ 5,610,415	\$ 4,444,138

1 Represents the Company's share of the changes in the fair value of derivative instruments accounted for as cash flow hedges.

Note 9. Segment Data

The operations of the Company are aligned into two business segments: (1) real estate operation and (2) development, construction and advisory services. Segment data of the Company for the three and six months ended June 30, 2008 and 2007 are as follows:

Three Months Ended June 30, 2008	Real Estate	Development, Construction and Advisory	Subtotal	Intersegment	Total
	Operation	Services		Eliminations	
Revenues	\$ 26,709,205	\$ 20,781,305	\$ 47,490,510	\$ (12,669,410)	\$ 34,821,100
Operating expenses, cost of construction and services, general, administrative and other	7,819,781	20,229,989	28,049,770	(12,357,022)	15,692,748
Depreciation and amortization	8,425,118	41,356	8,466,474		8,466,474
Operating income	10,464,306	509,960	10,974,266	(312,388)	10,661,878
Interest expense	(7,401,099)	(96,037)	(7,497,136)	145,637	(7,351,499)
Income tax expense of taxable REIT subsidiary		(251,858)	(251,858)		(251,858)
Other income	177,313		177,313	(145,637)	31,676
Minority interest in income of consolidated subsidiaries	(19,756)		(19,756)		(19,756)
Equity in earnings of unconsolidated entities	86,121		86,121		86,121
Limited Partners' interests in the Operating Partnership	(732,065)	(34,281)	(766,346)	69,073	(697,273)
Net income (loss)	\$ 2,574,820	\$ 127,784	\$ 2,702,604	\$ (243,315)	\$ 2,459,289
Total assets	\$ 1,073,642,118	\$ 57,735,969	\$ 1,131,378,087	\$ (39,585,616)	\$ 1,091,792,471

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Three Months Ended June 30, 2007	Real Estate Operation	Development, Construction and Advisory Services	Subtotal	Intersegment Eliminations	Total
Revenues	\$ 25,835,500	\$ 26,021,895	\$ 51,857,395	\$ (16,234,638)	\$ 35,622,757
Operating expenses, cost of construction and services, general, administrative and other	8,495,297	25,110,074	33,605,371	(15,858,084)	17,747,287
Depreciation and amortization	8,097,813	14,091	8,111,904		8,111,904
Operating income	9,242,390	897,730	10,140,120	(376,554)	9,763,566
Interest expense	(6,228,831)	(223,979)	(6,452,810)	277,726	(6,175,084)
Income tax expense of taxable REIT subsidiary		(7,991)			