

KONA GRILL INC
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You should rely only on the information contained in or incorporated by reference into this prospectus. We and the selling stockholders have not, and the underwriters have not, authorized anyone to provide you with information different than that contained in or incorporated by reference into this prospectus or in any free writing prospectus that we have authorized for use in connection with this offering. We, the selling stockholders and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give. If anyone provides you with different or inconsistent information, you should not rely on it. You should not assume that the information contained in this prospectus, any document incorporated by reference or any free writing prospectus is accurate as of any date, other than the date mentioned on the cover page of these documents. We and the selling stockholders are not, and the underwriters are not making an offer to sell the securities described in this prospectus in any jurisdiction in which an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make an offer or solicitation.

Unless otherwise indicated, information in this prospectus concerning economic conditions, our industry, our markets and our competitive position is based on a variety of sources, including information from independent industry analysts and third-party publications, as well as our own estimates and research.

This prospectus and the information incorporated herein may contain references to our trademarks, service marks, trade names and copyrights and to those belonging to other companies. Solely for convenience, the trademarks, service marks, trade names and copyrights referred to in this prospectus may be listed without the TM, SM, © and ® symbols, but we will assert, to the fullest extent under applicable law, our rights (or the rights of the applicable licensors, if any) to these trademarks, service marks, trade names and copyrights.

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PROSPECTUS SUMMARY

*This summary highlights certain information about us, this offering and selected information contained elsewhere in or incorporated by reference in this prospectus. This summary is not complete and does not contain all of the information that you should consider before deciding whether to invest in our common stock. For a more complete understanding of our company and this offering, we encourage you to read and consider carefully the more detailed information in this prospectus, including the information referred to under the heading **Risk Factors** in this prospectus beginning on page 10, the information incorporated by reference in this prospectus, and the information included in any free writing prospectus that we have authorized for use in connection with this offering. Unless otherwise indicated, Kona Grill, the Company, we, us, our and similar terms refer to Kona Grill, Inc.*

Our Company

Kona Grill is a polished casual restaurant growth concept that offers a diverse selection of flavorful American cuisine, internationally influenced appetizers and entrées and an extensive selection of award-winning sushi, complemented by a full-service bar that offers a broad assortment of wine, specialty cocktails and beer. Our restaurants combine made-from-scratch food, attentive service and an upscale contemporary ambiance to create an exceptional, yet affordable dining experience that we believe exceeds that of many traditional casual dining restaurants with whom we compete. As of March 31, 2014, we owned and operated 26 Kona Grill restaurants in 17 states. Our 23 comparable restaurants generated an average unit volume of \$4.3 million during 2013.

We believe that the portability of our concept has been successfully demonstrated in a variety of markets across the United States. Our primary growth objective is to double our restaurant sales over the next five years by strategically expanding the Kona Grill concept in both new and existing markets. We believe there are significant opportunities to grow our business and strengthen our competitive position given our small base of restaurants compared to many other national restaurant chains. We opened two restaurants during 2013 and plan to open five restaurants during 2014, which would result in 20% unit growth, and would make Kona Grill one of the fastest growing national restaurant concepts in the country. We believe the broad appeal of the Kona Grill concept, strong average unit volumes, flexible real estate strategy and high-performing restaurants in 17 states provide us with an opportunity for continued expansion. We believe our concept has the potential for more than 100 restaurants nationwide.

Based on industry analyst and third-party publication information, our growth in comparable restaurant sales has outperformed the casual dining restaurant industry average during each of the last four quarters. For 2013, comparable restaurant sales increased 1.4% over the prior year, following 2.7% growth in 2012 and an 8.8% increase in 2011. Comparable restaurant sales for the first quarter ended March 31, 2014 increased 6.2%, reflecting a 4.2% increase in customer traffic and a 2.0% increase in average check. The first quarter of 2014 marked our fourth consecutive quarter, and 14th out of the last 15 quarters, of comparable restaurant sales growth.

From fiscal year 2011 to 2013, our restaurant sales increased from \$93.7 million to \$98.3 million, our Restaurant Operating Profit increased from \$16.6 million to \$18.1 million and our Adjusted EBITDA increased from \$8.8 million to \$10.8 million, representing compounded annual growth of 2.4%, 4.2% and 11.0%, respectively. Our Restaurant Operating Profit as a percentage of sales was 18.4% during 2013, which ranks in the top quartile of the casual dining segment. Our income from operations increased from \$2.4 million in fiscal 2011 to \$3.1 million in fiscal 2013, representing a compounded annual growth rate of 14.2%. For a reconciliation of Restaurant Operating Profit and Adjusted EBITDA, both non-GAAP financial measures, to income from operations, see footnotes 1 and 2 in **Summary Historical Financial and Operating Data**.

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Our Business Strengths

We believe the following strengths differentiate the Kona Grill concept and serve as the foundation for our continued new unit growth.

Our Growth Restaurant Concept Provides a Distinctive Polished Casual Dining Experience

Our polished casual dining concept captures some of the best elements of fine dining including a variety of exceptional food options, attentive service and an extensive wine and cocktail list, and combines them with traditional casual dining attributes, such as a broad menu with attractive price points and a choice of environments suitable for any dining occasion. Our menu features a diverse selection of high quality and flavorful American favorites with an international influence and freshly prepared, award-winning sushi items that appeal to a wide range of tastes, preferences and price points. Our restaurant design incorporates a contemporary look with signature design elements, including a saltwater aquarium, unique tiles and textures and fire and water features. Our restaurant layout focuses on an open floor plan with multiple dining areas to provide our customers the choice of various dining ambiances to fit every mood and occasion. Our open floor plan also highlights our exhibition-style kitchen and sushi bar, which further emphasize the quality and freshness of our food that are the cornerstones of our concept. Our indoor/outdoor patio with a full-service bar incorporates a high-energy, socially-interactive atmosphere and serves as a destination for many of our frequent customers. We also have enclosed patios in colder climates to maximize utilization of the patio throughout the year. We believe our innovative menu and personalized service combined with a contemporary restaurant design enhance our customers' experience and differentiate us from our competitors and have driven the portability of our concept.

Our Exceptional Food Quality with Innovative Menu Selections Provides Excellent Value Proposition

We prepare our dishes from scratch at each restaurant location using original recipes, generous portions and creative and appealing presentations. Our more than 40 signature sauces and dressings create memorable flavor profiles and further differentiate our appetizers, salads, flatbreads, sandwiches, entrees and sushi offerings. We also offer seasonal specials at regular intervals throughout the year and use these promotions as research and development opportunities to surprise and delight our customers, which we believe enhances our customer frequency and loyalty. Our diverse menu is complemented by a full-service bar that offers a broad assortment of wine, specialty cocktails and beer, all of which help to mitigate commodity risk. Sushi and alcoholic beverages contribute approximately 24% and 30% of our total sales, respectively, and enable us to drive customer traffic throughout the day. We believe our diverse menu offerings, generous portions and multiple price points, including an average check per customer of approximately \$25, provide an exceptional price-value proposition and allow us to attract and retain a diverse customer base.

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Our Distinctive Atmosphere and Diverse Menu Mix Drives Customer Frequency across Multiple Dayparts

Our main dining area, full-service bar, patio and sushi bar provide a choice of atmospheres and a variety of dining destinations within our restaurants. The lively ambiance of our patio and bar areas provides an energetic social forum, while our sushi bar provides another exciting dining venue, offering a wide selection of creative and flavorful items. Our broad menu offering appeals to a wide range of tastes, preferences and price points and allows customers to dine with us during traditional lunch and dinner meal periods as well as in the late afternoon and late night. Sales during dinner, lunch and non-peak periods accounted for 52%, 24% and 24% of our total sales, respectively, during 2013. We believe that the range of dining experiences and relaxed social atmosphere engender a sense of loyalty in our customers not found in those who frequent our competitors. Our ability to attract diners and turn them into repeat customers is a testament to the quality of our food and distinctive atmosphere that make Kona Grill a unique restaurant concept.

Our Seasoned Restaurant Operations Team is Highly Trained to Provide Exceptional Food Quality and Customer Service

We believe our most valuable assets are our people. Our restaurant operations team consists of highly trained managers who are seasoned in all aspects of managing a high volume restaurant with diverse menu offerings. We believe our training program represents a significant investment in the development of our team. Our managers participate in both initial and ongoing formal training programs ranging from seven to nine weeks. The training program provides our team with a comprehensive understanding of menu items and ingredients, customer service protocols, personnel management and development, inventory management and ordering as well as maintenance of restaurant assets. We strive to adhere to and maintain the highest standards of food quality and customer service by staffing teams for our new restaurant openings with a mix of existing personnel who are well-versed with our management philosophy and overall operations and local talent. Additionally, we continue to build our talent base by identifying and incentivizing high-performing and passionate team members to enroll in a management development program where progress and promotion to the next level are measured by achievement of key milestones. We believe our seasoned restaurant operations team is a key driver of our restaurant growth and positions us well for long-term success.

Strong Unit Economics Driven by Disciplined Quality Site Selection and Effective Execution

During 2013, our comparable restaurants generated average sales of \$4.3 million. We produced strong Restaurant Operating Profit margins, which, for the year ended December 31, 2013, represented 18.4% of our total sales. For new locations, we target a net cash-on-cash return of 31-33% and a sales-to-investment ratio of 1.7 to 1, based on two to four years of operations. We believe the strength of our new locations arises from our rigorous site selection process and strong new restaurant management and training teams.

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We Are Led by a Dedicated Management Team with Significant Experience and a Proven Track Record

In January 2012, we appointed Berke Bakay as President and Chief Executive Officer. Mr. Bakay is Kona Grill's largest beneficial stockholder and has served on our Board of Directors since 2009. Since Mr. Bakay's appointment as President and Chief Executive Officer, we have resumed new unit growth and demonstrated strong results that include increasing comparable restaurant sales, improving restaurant operating profit and growing our average unit volume. Our Chief Financial Officer, Christi Hing, has 18 years of finance and accounting experience and has served more than eight years with Kona Grill. Our vice president of development, vice president of operations and vice president of food and beverage, combined, have more than 60 years of restaurant industry experience. We believe our experienced management team is a key driver of our restaurant growth and positions us well for long-term growth.

Our Growth Strategies

We believe that there are significant opportunities to develop new units, grow customer traffic and increase awareness of our brand throughout the United States. The following sets forth the key elements of our growth strategy.

Pursue Disciplined Restaurant Growth

We believe the broad appeal of Kona Grill's atmosphere and menu offerings, our high average unit volumes and multiple daypart model make our concept attractive to developers and provide us with the opportunity for continued expansion. We review potential sites in both new and existing markets that meet our demographic, real estate and investment criteria. We believe the location of our restaurants plays a pivotal role in determining the long-term success of each restaurant and the overall profitability of our company. Therefore, we spend significant time and resources evaluating each prospective site. We utilize a disciplined site selection process involving our management team and Board of Directors.

Our rigorous site selection process for new restaurants includes, but is not limited to, the following criteria:

proximity to high activity areas such as retail centers, shopping malls, mixed-use developments and lifestyle and entertainment centers;

access to markets possessing strong local economies with above average consumer density and per capita income; and

exposure to high customer traffic throughout the day from thriving businesses or retail markets.

We opened two new restaurants in 2013, in Boise, Idaho in October 2013, which was our first new restaurant since 2010, and in The Woodlands, Texas in December 2013, which is our second restaurant in the Houston market. In February 2014, we opened our newest restaurant in Fort Worth, Texas, and our first location with an engaging rooftop bar. Including our most recent opening, we plan to open five new restaurants in 2014. Additional planned openings include restaurants in El Paso, Texas during the summer of 2014 and in Sarasota, Florida; Alpharetta, Georgia and Columbus, Ohio during the fourth quarter of 2014. We currently have four signed leases for 2015 openings in Fairfax, Virginia; Miami, Florida; Plano, Texas and San Juan, Puerto Rico. We continue to work diligently to build a strong pipeline to achieve our long-term growth objectives, which include doubling our restaurant sales over the next five years, by strategically expanding the Kona Grill concept in both new and existing markets.

Our growth strategy for developing new locations also includes expansion in existing markets that have the appropriate demographics to support multiple restaurants. Operating multiple restaurants in existing markets enables us to leverage our brand equity as well as gain operating efficiencies associated with regional supervision, marketing, purchasing and hiring.

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Grow Existing Restaurant Sales

Our goal for existing restaurants is to increase unit volumes through ongoing marketing efforts designed to generate awareness of our concept and increase the frequency of our customer visits, while continuing to provide a great customer experience. Our key initiatives include:

Continued Offering of Innovative and Flavorful Menu Items. Our food-based promotions include innovative seasonal menu items offered four times during the year. These initiatives are highly successful in keeping our menu fresh and exciting while also providing a great venue to test the popularity of new menu items and the opportunity to bring back popular past menu items. We continue to enhance our wine list and utilize our Wine Down Wednesday promotion to drive customer traffic by offering a 50% discount on bottle wines each Wednesday.

Focus on Four-Wall Execution. We continue to focus on the quality of our service and hospitality with extensive training for our service staff on our wine list, drink and menu offerings. We utilize a customer satisfaction survey across the brand to provide valuable feedback that our management team can respond to immediately.

Grow Customer Loyalty Through Local Restaurant Marketing. We believe the active presence of our restaurant-level management teams is instrumental in strengthening brand awareness and cultivating customer loyalty. Participation in community and philanthropic endeavors provide a means for our restaurants to plant deeper roots in their respective communities. To complement these programs, we continue to grow our customer loyalty program, Konavore, which, as of March 31, 2014, had grown to more than 200,000 members. We utilize this e-mail based program to communicate new menu offerings, restaurant specific events and other marketing messages to keep Kona Grill top of mind for consumers. We have also increased our presence in social marketing and interactive advertising to grow restaurant sales.

Strategic Investments in Personnel and Systems

During 2013, we made strategic personnel investments in order to re-ignite the expansion of our concept and successfully execute on our growth strategies. In 2014, we have made and plan to make additional investments in both operations and development personnel to enable us to accelerate and support incremental new unit growth. Additionally, we continue to implement systems and tools to enhance our business while ensuring that strong financial controls are in place to minimize risks associated with our current growth strategy. We believe that as the restaurant base grows, our general and administrative costs will increase at a slower growth rate than will our restaurant sales, thereby leveraging our general and administrative costs and increasing our earnings.

Our Challenges

Before you invest in our common stock, you should carefully consider all the information contained elsewhere and incorporated by reference in this prospectus, including matters set forth under the heading **Risk Factors** herein. Risks relating to our business include, among others, the following:

our financial results depend significantly on the success of our existing and new restaurants;

our long-term success is highly dependent on our ability to successfully identify new locations and develop and expand our operations, while providing scalable and effective restaurant support infrastructure;

we are susceptible to economic trends and developments, including adverse weather, in the areas in which are restaurants are located;

changes in food costs and availability could adversely affect our operating results; and

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damage to our reputation or lack of acceptance of our brand in existing or new markets could negatively impact our business and results of operations.

we are dependent upon our ability to attract and retain key management and operations personnel.

Corporate Information

Our principal executive offices are located at 7150 East Camelback Road, Suite 220, Scottsdale, Arizona 85251 and our telephone number is (480) 922-8100. Our website address is www.konagrill.com. The information contained on our website or that can be accessed through our website does not constitute part of this prospectus other than documents that we file with the SEC that are incorporated by reference into this prospectus.

The Offering

Except as otherwise indicated, all information in this prospectus assumes no exercise by the underwriters of their option to purchase additional shares.

Common stock offered by us	2,000,000 shares
Common stock offered by the selling stockholders	300,000 shares
Common stock outstanding after the offering	10,615,667 shares
Risk factors	See Risk factors beginning on page 10 for a discussion of some of the factors you should carefully consider before deciding to invest in shares of our common stock.
Use of proceeds	We intend to use the net proceeds from the sale of shares offered by us for new unit expansion, capital expenditures and general corporate purposes. See Use of Proceeds beginning on page 12 of this prospectus.
	We will not receive any proceeds from the sale of shares by the selling stockholders.

NASDAQ Global Market symbol

KONA

The number of shares of common stock to be outstanding immediately after this offering, as shown in the table above, is based on 8,615,667 shares of common stock outstanding as of June 19, 2014.

The number of shares of common stock to be outstanding immediately after this offering does not include 345,000 shares subject to the underwriters' option to purchase additional shares and also excludes:

1,066,375 shares of our common stock issuable upon the exercise of stock options outstanding as of March 31, 2014, with a weighted average exercise price of \$9.51; and

287,525 shares of our common stock available as of March 31, 2014 for future issuance pursuant to our 2012 Stock Award Plan.

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The following tables set forth, for the periods and dates indicated, our summary historical financial and operating data. We have derived the consolidated statement of comprehensive income data for the years ended December 31, 2013, 2012 and 2011 and the balance sheet data as of December 31, 2013 and 2012 from our audited consolidated financial statements incorporated by reference in this prospectus. We have derived the consolidated statement of comprehensive income data for the quarters ended March 31, 2014 and 2013 and the balance sheet data as of March 31, 2014 from our unaudited consolidated financial statements incorporated by reference in this prospectus. We have derived the balance sheet data as of December 31, 2011 from our audited consolidated financial statements not incorporated by reference in this prospectus. You should read this information in conjunction with Selected Financial Data,

Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes to those statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and the quarterly Report on Form 10-Q for the quarter ended March 31, 2014, which are incorporated by reference in this prospectus.

	Year Ended December 31,			Quarter Ended March 31,	
	2013	2012	2011	2014	2013
	(Dollars in thousands, except per share data)				
Consolidated Statement of Comprehensive Income Data:					
Restaurant sales	\$ 98,250	\$ 96,021	\$ 93,657	\$ 27,616	\$ 23,496
Costs and expenses:					
Cost of sales	26,853	26,246	25,579	7,510	6,453
Labor	33,166	31,968	30,896	9,426	7,866
Occupancy	6,702	6,253	6,573	1,843	1,615
Restaurant operating expenses	13,456	13,534	13,977	3,848	3,171
General and administrative	7,854	7,037	8,395	2,576	1,875
Preopening expense	1,162			390	
Depreciation and amortization	5,918	5,749	5,856	1,687	1,429
Insurance recoveries and other	32	(120)			
Total costs and expenses	95,143	90,667	91,276	27,280	22,409
Income from operations	3,107	5,354	2,381	336	1,087
Nonoperating income (expense):					
Write off of deferred financing costs	(66)				
Interest expense, net	(160)	(66)	(58)	(60)	(3)
Income from operations before provision for income taxes	2,881	5,288	2,323	276	1,084
Provision for income taxes	169	36	9	25	80
Income from continuing operations	2,712	5,252	2,314	251	1,004
Loss from discontinued operations, net of tax		(466)	(288)		
Net income	\$ 2,712	\$ 4,786	\$ 2,026	\$ 251	\$ 1,004

Net income per share Basic

Continuing operations	\$	0.32	\$	0.60	\$	0.25	\$	0.03	\$	0.12
Discontinued operations				(0.05)		(0.03)				

Net income	\$	0.32	\$	0.55	\$	0.22	\$	0.03	\$	0.12
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Net income per share Diluted

Continuing operations	\$	0.31	\$	0.59	\$	0.24	\$	0.03	\$	0.12
Discontinued operations				(0.05)		(0.03)				

Net income	\$	0.31	\$	0.54	\$	0.21	\$	0.03	\$	0.12
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Weighted average shares outstanding:

Basic	8,573	8,726	9,242	8,609	8,543
Diluted	8,762	8,868	9,428	8,882	8,643

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Balance Sheet Data (end of period):	2013	December 31,		March 31, 2014
		2012	2011	
		(Dollars in thousands)		
Cash and cash equivalents	\$ 5,881	\$ 7,989	\$ 6,327	\$ 4,945
Investments	177	177	176	178
Working capital (deficit)	(6,476)	1,044	(2,380)	(2,798)
Total assets	49,868	39,325	41,347	49,104
Total debt	3,500	370	132	3,500
Total stockholders' equity	22,358	18,868	17,684	22,854

	Year Ended December 31,			Quarter Ended March 31,	
	2013	2012	2011	2014	2013
	(Dollars in thousands)				
Other Financial Data:					
Net cash provided by operating activities	\$ 9,460	\$ 7,352	\$ 7,676	\$ 3,754	\$ 856
Net cash used in investing activities	\$ (14,536)	\$ (1,776)	\$ (1,538)	\$ (4,734)	\$ (393)
Net cash provided by (used in) financing activities	\$ 2,968	\$ (3,914)	\$ (2,366)	\$ 44	\$ (134)
Capital expenditures	\$ 14,445	\$ 1,794	\$ 1,492	\$ 4,697	\$ 387
Restaurant operating profit ⁽¹⁾	\$ 18,073	\$ 18,020	\$ 16,632	\$ 4,989	\$ 4,391
Restaurant operating profit as a percentage of sales	18.4%	18.8%	17.8%	18.1%	18.7%
Adjusted EBITDA ⁽²⁾	\$ 10,803	\$ 11,381	\$ 8,768	\$ 2,614	\$ 2,659
Adjusted EBITDA as a percentage of sales	11.0%	11.9%	9.4%	9.5%	11.3%

Operating Data:

Total restaurants at end of period	25	23	23	26	23
Total comparable restaurants at end of period	23	23	22	23	23
Average unit volume ⁽³⁾	\$ 4,250	\$ 4,190	\$ 4,089	\$ 1,090	\$ 1,026
Same-store sales percentage change ⁽⁴⁾	1.4%	2.7%	8.8%	6.2%	(2.6)%

(1) Restaurant operating profit is not a financial measure determined in accordance with U.S. generally accepted accounting principles (see reconciliation below) and should not be considered in isolation or as an alternative to income from continuing operations. Restaurant operating profit is defined as restaurant sales minus cost of sales, labor, occupancy and restaurant operating expenses and does not include general and administrative expenses, preopening expenses, depreciation and amortization and insurance recoveries and other. Restaurant operating profit may not be comparable to the same or similarly titled measures computed by other companies. We believe restaurant operating profit is an important component of our financial results because it is a widely used metric within the restaurant industry to evaluate restaurant-level productivity, efficiency and performance. We use restaurant operating profit as a percentage of restaurant sales as a key metric to evaluate our restaurants' financial performance compared with our competitors.

(2) Adjusted EBITDA is not a financial measure determined in accordance with U.S. generally accepted accounting principles (see reconciliation below) and should not be considered in isolation or as an alternative to income from operations. Adjusted EBITDA is defined as income from continuing operations plus depreciation and

amortization, preopening expense, stock-based compensation and insurance recoveries and other. Adjusted EBITDA is presented because: (i) we believe it is a useful measure for investors to assess the operating performance of our business without the effect of non-cash items such as depreciation and amortization expenses and stock-based compensation; (ii) we believe that investors will find these measures useful in assessing our ability to service or incur indebtedness; and (iii) we use Adjusted EBITDA internally as a benchmark to evaluate our operating performance and compare our performance to that of our competitors.

- (3) Includes only those restaurants in the comparable restaurant base.
- (4) Same-store sales percentage change reflects the periodic change in restaurant sales for the comparable restaurant base compared to the same prior period. In calculating the percentage change for same-store

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sales, we include a restaurant in the comparable restaurant base after it has been in operation for more than 18 months. We remove restaurants from the comparable base for periods in which they are closed, primarily related to remodel activities.

□ \$□ 40,000 110,000 \$98,800\$271,700Daniel R. Sink □ \$□ 26,667 73,333 \$65,867\$181,133

(1) Based upon the closing price per share of our common shares of \$15.47 on December 30, 2005.

Employment and Noncompetition Agreements

We have entered into employment agreements with each of our named executive officers.

Pursuant to their agreements, Messrs. Al Kite, John Kite, McGowan and Sink have agreed to serve, respectively, as (a) chairman of our Board of Trustees, (b) our president and chief executive officer, (c) our executive vice president of development and chief operating officer, and (d) our senior vice president and chief financial officer. The term of each agreement commenced concurrently with the closing of our initial public offering on August 16, 2004 and ends on December 31, 2007, with automatic one-year renewals unless either we or the individual elects not to renew the agreement. Under the agreements, Al Kite receives an annual salary of \$150,000, John Kite receives an annual salary of \$325,000, Mr. McGowan receives an annual salary of \$275,000, and Mr. Sink receives an annual salary of \$210,000, subject in each case to annual increases in the sole discretion of our Board of Trustees or a committee thereof. Each of the executives also is eligible to participate in our bonus plan, the terms of which have been established by the compensation committee of our Board of Trustees. In addition, each executive participates in any group life, hospitalization, disability, health, pension, profit sharing and other benefit plans we have adopted or adopt in the future. Among other perquisites, each executive also receives either an annual automobile allowance of \$9,000 or a suitable automobile provided by us.

In the event any executive's employment agreement is terminated for disability or death (and, in the case of Al Kite only, if he retires), he or the beneficiaries of his estate will receive any accrued and unpaid salary, vacation and other benefits and any unpaid bonus for the prior year, a pro rated bonus in the year of termination (based on the target bonus for that year), and all equity awards shall immediately vest and become fully exercisable. If we

terminate any executive's employment agreement for "cause" or an executive (other than Al Kite) terminates his employment agreement without "good reason," the executive will only have the right to receive any accrued and unpaid salary, vacation and other benefits, and any bonus as provided for in the bonus plan.

If we terminate any executive's employment agreement without "cause" or an executive terminates his employment agreement for "good reason," the executive will have the right to receive any accrued and unpaid salary, vacation and other benefits and any unpaid bonus for the prior year, a pro rated bonus in the year of termination (based on the target bonus for that year), continued medical benefits for one year, and a cash payment equal to three times (two times with respect to Mr. Sink) the sum of his annual salary as of the date of the termination of the agreement and the average bonus earned for the prior three calendar years (prior two calendar years with respect to Mr. Sink). In addition, all equity awards shall immediately vest and become fully exercisable. If we elect not to renew any executive's employment agreement, the executive will have the right to receive a cash payment equal to one times the sum of his annual salary as of the date of expiration of the employment agreement and the average bonus earned for the prior three calendar years (prior two calendar years with respect to Mr. Sink).

The employment agreements define "cause" as an executive's: conviction for a felony; commission of an act of fraud, theft or dishonesty related to his duties; willful and continuing failure or habitual neglect to perform his duties; material violation of confidentiality covenants or non-competition agreement; or willful and continuing breach of the employment agreement.

The employment agreements define "good reason" as: a material reduction in the executive's authority, duties and responsibilities or the assignment to him of duties inconsistent with his position; a reduction in the executive's annual salary that is not in connection with a reduction of compensation applicable to senior management employees; our failure to obtain a reasonably satisfactory agreement from any successor to our business to assume and perform the employment agreement; a change in control (as defined in the employment agreements); our material and willful breach of the employment agreement; or our requirement that the executive's work location be moved more than 50 miles from our principal place of business in Indianapolis, Indiana.

Each executive is entitled to receive payment from us of an amount sufficient to make him whole for any excise tax imposed on payments made contingent on a change in control under Section 4999 of the Internal Revenue Code.

In addition to the employment agreements, the executives entered into noncompetition agreements with us, which were effective as of the completion of our initial public offering on August 16, 2004. With respect to Messrs. Al Kite, John Kite and McGowan, the noncompetition agreements contain covenants not to compete for a period that is the longer of either the three-year period beginning as of the date of the noncompetition agreement or the period of the executive's employment plus an additional one-year period. With respect to Mr. Sink, the noncompetition agreement covers the period of his employment plus an additional one-year period. The noncompetition agreements also contain a nonsolicitation covenant that applies to employees and independent contractors. With respect to Messrs. Al Kite, John Kite and McGowan, the nonsolicitation covenant lasts for a period that is the longer of either the three-year period beginning as of the date of the noncompetition agreement or the period of the executive's employment plus an additional two-year period. With respect to Mr. Sink, the nonsolicitation covenant lasts for a period of his employment plus an additional two-year period.

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EQUITY COMPENSATION PLAN INFORMATION

The following table gives information about our common shares that may be issued under all of our existing equity compensation plans as of December 31, 2005.

Plan Category	(a) Number of Securities to be	(b) Weighted Average Exercise Price of Outstanding Options, Warrants and Rights	(c) Number of Securities Remaining Available for Future
	Issued Upon Exercise of Outstanding Options, Warrants and Rights		Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by shareholders	959,700	\$ 13.23	1,020,480
Equity compensation plans not approved by shareholders	□	N/A	□
Total	959,700	\$ 13.23	1,020,480

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PERFORMANCE GRAPH

The following graph compares the cumulative total shareholder return of our common shares for the period from August 11, 2004, the date that our common shares began trading on NYSE, to December 31, 2005, to the S&P 500 Index and to the published NAREIT All Equity REIT Index over the same period. The graph assumes that the value of the investment in our common shares and each index was \$100 at August 11, 2004 and that all dividends were reinvested. The shareholder return shown on the graph below is not indicative of future performance.

**COMPARISON OF 16 MONTH CUMULATIVE TOTAL RETURN*
AMONG KITE REALTY GROUP TRUST, THE S & P 500 INDEX,
AND THE NAREIT EQUITY INDEX**

Index	8/11/04	9/30/04	12/31/04	3/31/05	6/30/05	9/30/05	12/31/05
Kite Realty Group Trust	100.00	101.15	117.54	112.93	120.69	121.56	126.04
S&P 500	100.00	101.49	110.86	108.48	109.96	113.93	116.30
NAREIT All Equity REIT Index	100.00	107.87	124.30	115.53	132.23	137.30	139.42

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COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee (the "Committee") of the Board of Trustees currently consists of William E. Bindley (chairman), Eugene Golub and Michael L. Smith. Under its charter, the Committee is responsible for determining the appropriate level and structure of compensation for the Company's executive officers, including base salary, bonus and long-term incentive compensation. Set forth below in full is the report of the Committee regarding the compensation paid by the Company to its executive officers with respect to fiscal year 2005.

Compensation Policies for Executive Officers

The Committee desires to implement compensation policies that seek to enhance shareholder value by aligning closely the financial interests of our executive officers with those of our stockholders. Our compensation policies are designed to:

- attract and retain the best possible executive talent;
- motivate these executives to achieve the goals inherent in our business strategy;
- link executive and shareholder interests through performance goals and equity-based plans; and
- provide compensation packages to our executive officers that recognize individual contributions as well as overall business results.

In determining the compensation arrangements of our executive officers, the Committee considers, among other things, the responsibilities of the position held and the experience of the individual, the competitive marketplace for executive talent and the compensation levels of similarly-situated executives at comparable publicly-traded REITs and, where applicable, other public companies. In addition, the Committee considers achievement of certain performance levels by the Company, including growth in funds from operations and acquisition and development activities, and the individual executive's performance and contribution to these corporate goals.

In determining the long-term incentive component of compensation for executive officers, the Committee considers our performance and relative shareholder return and the value of similar incentive awards to executive officers at comparable companies.

Components of Executive Officer Compensation

The components of our executive officer compensation program consist of base salary, bonus and long-term incentive compensation, currently awarded through the use of restricted share grants and/or share options. Each of these three categories of compensation is reviewed separately, but the three components are integrally linked, as we review each category in light of its relationship to the total compensation that we believe our executive officers should receive.

Base Salary

Base salaries for our executive officers were established in August 2004 pursuant to the terms of employment agreements entered into with the executive officers in connection with the Company's initial public offering. While the terms of the employment agreements provide that the base salaries of such executive officers cannot be reduced by the Company during the terms of the agreements, these salaries are subject to annual increases in the sole discretion of the Board of Trustees or a committee thereof. The Committee was not involved in establishing these salaries, and did not approve any increases to these salaries in 2005. However, the Committee will consider from time to time whether an increase in an executive officer's base salary is merited, taking into account the performance of the Company and of the executive officer, and also taking into account any increases in the responsibilities of the executive, or in the compensation levels of similarly-situated executives at comparable publicly-traded REITs, as well as any other matters deemed appropriate at the time.

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Bonuses

The Company's executive officers participate in the Company's Executive Bonus Plan. In March 2005, the Committee approved the bonus structure and the establishment of certain benchmarks to determine the 2005 bonuses to be awarded under the Executive Bonus Plan for the Company's executive officers, except for Alvin E. Kite, Jr., the Company's Chairman, whose bonus the Committee decided to determine separately on an annual basis. The Committee determined that 2005 annual bonuses would be based on objective and subjective criteria and both corporate and individual performance. The principal corporate performance measures identified by the Committee were funds from operations ("FFO"), a widely accepted supplemental measure of REIT performance established by the National Association of Real Estate Investments Trusts (to be determined prior to impairment losses), new development projects and acquisitions of properties.

The Committee set objective performance goals with respect to each of the aforementioned performance measures, with certain weightings attributable to achievement of each of these goals. The Committee then established specific criteria for achieving "threshold," "target," "superior," or "outperformance" bonuses in relation to these goals. The Committee also determined that, in the case of both Thomas K. McGowan, the Company's Executive Vice President and Chief Operating Officer and Daniel R. Sink, the Company's Senior Vice President and Chief Financial Officer, the bulk (approximately 80%) of their bonuses will be based on achievement of corporate goals, with the remainder of their bonus to be determined based on the achievement of individual goals. In the case of John A. Kite, the Company's President and Chief Executive Officer, the Committee determined that his bonus will be based entirely on achievement of corporate goals.

In February 2006, after reviewing and considering the benchmarks established in March 2005, as well as other relevant factors, the Committee approved the 2005 bonuses for the executive officers, which bonuses were as follows: John A. Kite, the Company's President and Chief Executive Officer, received \$195,000; Thomas K. McGowan, the Company's Executive Vice President and Chief Operating Officer, received \$165,000; and Daniel R. Sink, the Company's Senior Vice President and Chief Financial Officer, received \$100,000. Pursuant to the Committee's bonus structure established in March 2005, 50% of the bonuses are payable in cash and 50% are payable in restricted common shares of the Company, which will vest ratably over three years.

In light of the superior performance of the Company subsequent to its initial public offering, the Committee also approved a discretionary bonus for Alvin E. Kite, Jr. in the amount of approximately \$90,000 payable entirely in restricted common shares of the Company, which also vest ratably over three years. This determination was based upon a number of factors, including the increased value created for shareholders and the successful execution of the Company's business plan since its initial public offering.

In the future, the Committee expects to continue to evaluate bonus payments to executive officers based on pre-determined objective corporate performance criteria, as well as individual performance and by reference to the competitive marketplace for executive talent.

Long-Term Incentive Compensation

Long-term incentive compensation is provided pursuant to the Company's 2004 Equity Compensation Plan (the "Plan"). The Plan is intended to enhance the Company's ability to attract and retain highly qualified officers, trustees, key employees, and other service providers, and to provide incentives to such persons to stimulate their efforts toward the Company's continued success, long-term growth and profitability by providing to such persons an opportunity to acquire or increase a direct proprietary interest in the operations and future success of the Company. To this end, the Plan provides for the grant of share options, share appreciation rights, restricted shares, share units, unrestricted shares, dividend equivalent rights and cash awards. Any of these awards may, but need not, be made as performance incentives to reward attainment of annual or long-term performance goals in accordance with the terms of the Plan.

Our executive officers received long-term incentive compensation awards, in the form of share options, in August 2004 in connection with the Company's initial public offering. The Committee did not approve any awards with respect to 2005, other than the portion of the executive officer's bonuses payable in restricted common shares.

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Compensation of Chief Executive Officer

The Committee is responsible for approving the compensation arrangements for John Kite, the Company's Chief Executive Officer, and determines such compensation arrangements in the same manner as described above for all executive officers. For 2005, the Committee did not approve any increases in base salary beyond what was established in Mr. Kite's employment agreement that was entered into in August 2004 in connection with the Company's initial public offering. The Committee also did not approve any long-term incentive compensation award for Mr. Kite for 2005.

As discussed above, in February 2006, the Committee approved a \$195,000 bonus to Mr. Kite, which bonus was based entirely on the achievement of corporate goals. In determining Mr. Kite's annual bonus, the Committee analyzed the Company's performance in light of the corporate performance measures established in March 2005.

Total compensation amounts paid with respect to fiscal year 2005 to Mr. Kite are shown in the Summary Compensation Table. The Committee believes that Mr. Kite's total compensation package of salary, bonus and long-term compensation was reasonable and competitive for his contributions as Chief Executive Officer.

Tax Limits on Executive Compensation

The Committee has reviewed the potential consequences for the Company of Section 162(m) of the Internal Revenue Code of 1986, as amended, which imposes a limit on tax deductions for annual compensation in excess of one million dollars paid to any of the five most highly compensated executive officers. To the extent that compensation is required to and does not qualify for deduction under Section 162(m), a larger portion of shareholder distributions may be subject to federal income tax expense as dividend income rather than return of capital, and any such compensation allocated to the Company's taxable REIT subsidiaries whose income is subject to federal income tax would result in an increase in income taxes due to the inability to deduct such compensation. Although the Company will be mindful of the limits imposed by Section 162(m), even if it is determined that Section 162(m) applies or may apply to certain compensation packages, the Company nevertheless reserves the right to structure the compensation packages and awards in a manner that may exceed the limitation on deduction imposed by Section 162(m).

Respectfully submitted,

The Compensation Committee of the Board of Trustees

WILLIAM E. BINDLEY (*Chairman*)

EUGENE GOLUB

MICHAEL L. SMITH

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee of the Board of Trustees are of William E. Bindley, Eugene Golub and Michael L. Smith, each of whom is an independent trustee. None of these trustees, nor any of our executive officers, serves as a member of the governing body or compensation committee of any entity that has one or more executive officers serving as a member of our Compensation Committee.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee is currently composed of Messrs. Smith, Cosier and Moss. The members of the Audit Committee are appointed by and serve at the discretion of the Board of Trustees.

One of the principal purposes of the Audit Committee is to assist the Board of Trustees in the oversight of the integrity of the Company's financial statements. The Company's management team has the primary responsibility for the financial statements and the reporting process, including the system of internal controls and disclosure controls and procedures. In fulfilling its oversight responsibilities, the Audit Committee reviewed the audited financial statements in the Annual Report on Form 10-K for the year ended December 31, 2005 with our management.

The Audit Committee also is responsible for assisting the Board of Trustees in the oversight of the qualification, independence and performance of the Company's independent auditors. The Audit Committee reviewed with the independent auditors, who are responsible for expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles, their judgments as to the quality, not just the acceptability, of the Company's accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards and those matters required to be discussed by Statement on Auditing Standards No. 61.

The Audit Committee has received both the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board, Standard No. 1, and has discussed with Ernst & Young LLP the independence of Ernst & Young LLP from management and the Company. In addition, the Audit Committee has considered whether the provision of non-audit services, and the fees charged for such non-audit services, by Ernst & Young LLP are compatible with maintaining the independence of Ernst & Young LLP from management and the Company.

Based on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Trustees that our audited financial statements for 2005 be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 for filing with the SEC.

Respectfully submitted,

The Audit Committee of the Board of Trustees

MICHAEL L. SMITH (*Chairman*)

DR. RICHARD A. COSIER

GERALD L. MOSS

PRINCIPAL SHAREHOLDERS

The following table sets forth certain information regarding the beneficial ownership of our common shares and units of limited partnership interest of Kite Realty Group, L.P., which we refer to as the operating partnership, as of the record date by (a) each of our trustees, (b) each of our named executive officers, (c) all of our trustees and executive officers as a group, and (d) each person known to us to be the beneficial owner of more than five percent of our common shares. Operating partnership units are redeemable for an equal number of our common shares or cash, at our election, beginning one year after the date of issuance. Unless otherwise indicated, all shares and operating partnership units are owned directly and the indicated person has sole voting and dispositive power. The SEC has defined "beneficial ownership" of a security to mean the possession, directly or indirectly, of voting power and/or dispositive power. A shareholder is also deemed to be, as of any date, the beneficial owner of all securities that such shareholder has the right to acquire within 60 days after that date through (a) the exercise of any option, warrant or right, (b) the conversion of a security, (c) the power to revoke a trust, discretionary account or similar arrangement, or (d) the automatic termination of a trust, discretionary account or similar arrangement.

Unless otherwise indicated, the address of each person listed below is c/o Kite Realty Group Trust, 30 S. Meridian Street, Suite 1100, Indianapolis, IN 46204.

Beneficial Owner	Number of Shares and Units Beneficially	% of	% of All Shares and Units
Named Executive Officers and Trustees	Owne	All Shares (1)	Units (2)
Alvin E. Kite, Jr. (3)	3,561,499	11.32%	8.88%
John A. Kite (4)	2,246,201	7.35%	5.74%
Thomas K. McGowan (5)	1,554,761	5.16%	4.01%
Daniel R. Sink (6)	98,398	*	*
Eugene Golub (7)	23,787	*	*
William E. Bindley	14,587	*	*
Michael L. Smith	14,587	*	*
Gerald L. Moss	6,587	*	*
Dr. Richard A. Cosier	4,587	*	*
All trustees and executive officers as a group (9 persons)	7,524,994	21.46%	17.23%
More than Five Percent Beneficial Owners			
Franklin Resources, Inc. (8)	2,451,440	8.58%	6.59%
Charles B. Johnson			
Rupert H. Johnson, Jr.			
Franklin Advisers, Inc.			
Columbia Wanger Asset Management, L.P.(9)	2,235,000	7.82%	6.01%
WAM Acquisition GP, Inc.			
Delaware Management Holdings (10)	2,131,200	7.46%	5.73%
Delaware Management Business Trust			

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Paul W. Kite (11)	2,060,592	*	5.30%
T. Rowe Price Associates, Inc. (12)	1,636,600	5.73%	4.40%
T. Rowe Price Small-Cap Value Fund, Inc.			
Stichting Pensioenfonds ABP (13)	1,590,000	5.56%	4.28%

* Less than 1%

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- (1) The total number of shares deemed outstanding and used in calculating this percentage for the named person(s) is the sum of (a) 28,583,414 common shares outstanding as of March 9, 2006, (b) the number of common shares that are issuable to such person(s) upon exercise of options that are exercisable within 60 days of March 9, 2006, and (c) the number of common shares issuable to such person(s) upon redemption of limited partnership units owned by such person(s).
- (2) The total number of shares and units deemed outstanding and used in calculating this percentage for the named person(s) is the sum of (a) 28,583,414 common shares outstanding as of March 9, 2006, (b) 8,618,664 limited partnership units outstanding as of March 9, 2006 (other than such units held by us), and (c) the number of common shares that are issuable to such person(s) upon exercise of options that are exercisable within 60 days of March 9, 2006.
- (3) Includes 620,720 common shares and 2,570,330 limited partnership units owned directly by Alvin E. Kite, Jr. (including units held by a limited liability company which are expected to be distributed to Alvin E. Kite, Jr. shortly), 53,000 common shares owned by Alvin E. Kite, Jr.'s spouse, 50,000 common shares which Alvin E. Kite, Jr. has the right to acquire upon exercise of common share options, 192,307 limited partnership units held by an irrevocable trust for the benefit of Alvin E. Kite, Jr.'s son and 75,758 limited partnership units held by a grantor retained annuity trust.
- (4) Includes 272,127 common shares and 1,697,407 limited partnership units owned directly by John A. Kite, (including units held by a limited liability company which are expected to be distributed to John A. Kite shortly), 10,000 common shares owned by John A. Kite's spouse, 66,667 common shares which John A. Kite has the right to acquire upon exercise of common share options and 200,000 limited partnership units held by a grantor retained annuity trust.
- (5) Includes 23,933 common shares and 1,319,028 limited partnership units owned directly by Thomas K. McGowan, (including units held by a limited liability company which are expected to be distributed to Mr. McGowan shortly) 50,000 common shares which Thomas K. McGowan has the right to acquire upon exercise of common share options, 141,800 limited partnership units held by a grantor retained annuity trust and 20,000 limited partnership units held by an irrevocable trust.
- (6) Includes 3,527 common shares and 61,538 limited partnership units owned directly and 33,333 common shares which Daniel R. Sink has the right to acquire upon exercise of common share options.
- (7) Includes 19,200 common shares owned through a trust.
- (8) Based on information provided by the beneficial owners in a Schedule 13G/A filed with the SEC on February 13, 2006, the securities are held by one or more open or closed-end investment companies or other managed accounts, which are advised by direct and indirect investment advisory subsidiaries, the adviser subsidiaries, of Franklin Resources, Inc. under contracts which grant to the adviser subsidiaries all investment and/or voting power over the securities owned by such advisory clients. Charles B. Johnson and Rupert H. Johnson, Jr., the principal shareholders, each own in excess of 10% of the outstanding common stock of Franklin Resources, Inc. Franklin Resources, Inc. and the principal shareholders may be deemed to be the beneficial owner of securities held by persons and entities advised by Franklin Resources, Inc.'s subsidiaries. Franklin Resources, Inc., the principal shareholders and each of the adviser subsidiaries disclaim any economic interest or beneficial ownership in any of the securities indicated as beneficially owned in the above table. The address for Franklin Resources, Inc., the principal shareholders and each of the advisor subsidiaries is One Franklin Parkway, San Mateo, CA 94403.

- (9) Based on information provided in Schedule 13G filed on February 14, 2006, Columbia Wanger Asset Management, L.P. has sole voting and dispositive power and WAM Acquisition GP, Inc. has shared voting and dispositive power with respect to the entire number of these shares. The shares reported in the Schedule 13G include the shares held by Columbia Acorn Trust, a Massachusetts business trust that is advised by Columbia Wanger Asset Management, L.P. WAM Acquisition GP, Inc. is the general partner of Columbia Wanger Asset Management, L.P. The address of Columbia Wanger Asset Management, L.P. and WAM Acquisition GP, Inc. is 227 West Monroe Street, Suite 3000, Chicago, Illinois 60606.

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- (10) Based on information provided in a Schedule 13G/A filed jointly by Delaware Management Holdings and Delaware Management Business Trust on February 9, 2006, Delaware Management Holdings and Delaware Management Business Trust each have sole voting and dispositive power with respect to the entire number of these shares. Lincoln National Corp. is the ultimate parent of Delaware Management Business Trust. The address of Delaware Management Holdings and Delaware Management Business Trust is 2005 Market Street, Philadelphia, PA 19103.
- (11) Includes 161,366 common shares and 1,699,226 limited partnership units owned directly by Paul W. Kite (including units held by a limited liability company which are expected to be distributed to Paul W. Kite shortly) and 200,000 limited partnership units held by a grantor retained annuity trust.
- (12) Based on information provided in a Schedule 13G filed on February 14, 2006 T. Rowe Price Associates, Inc. has sole voting power with respect to 147,100 shares and sole dispositive power with respect to 1,636,600 shares and T. Rowe Price Small-Cap Value Fund, Inc. has sole voting power with respect to 1,486,900 shares. T. Rowe Price Associates, Inc. is the investment advisor of various registered investment companies and investment advisory clients, including T. Rowe Price Small-Cap Value Fund, Inc. For purposes of the reporting requirements of the Securities Exchange Act of 1934, T. Rowe Price Associates, Inc. is deemed to be a beneficial owner of these securities; however, T. Rowe Price Associates, Inc. expressly disclaims that it is, in fact, the beneficial owner of such securities. The address of T. Rowe Price Associates, Inc. and T. Rowe Price Small-Cap Value Fund, Inc. is 100 E. Pratt Street, Baltimore, Maryland 21202.
- (13) Based on information provided by Stichting Pensioenfond ABP in a Schedule 13G filed with the SEC on February 14, 2006, Stichting Pensioenfond ABP has sole voting and dispositive power with respect to the entire number of these shares. The address of Stichting Pensioenfond ABP is Oude Lindestraat 70, Postbus 2889, 6401 DL Heerlen, The Kingdom of the Netherlands.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Acquisition of Tarpon Springs Plaza Development Property

On March 31, 2005, our operating partnership entered into a contribution agreement with Brentwood Holdings, LLC, and Al Kite, John Kite, Tom McGowan and Paul Kite (son of Al Kite and brother of John Kite), whom we refer to as the Principals, pursuant to which the operating partnership acquired a 100% interest in Tarpon Springs Plaza, a 15-acre development site located at the southeast corner of I-75 and Immokalee Road in Naples, Florida. In August 2004, in connection with our initial public offering, the operating partnership had entered into an option agreement granting the operating partnership the right to purchase the Principals' interest in the Tarpon Springs Plaza development property. We elected to accelerate the acquisition of the property prior to stabilization when the entitlement process began.

Pursuant to the contribution agreement, the operating partnership acquired the Principals' 100% interest in the development property by acquiring 100% of the membership interests in the entity that owns the development property. The aggregate purchase price was approximately \$7.2 million, which includes the assumption and repayment of indebtedness. A portion of the purchase price, approximately \$3.1 million, equaled the Principals' cost in the project with no profit, and was paid through the issuance of 214,049 units of limited partnership interest in the operating partnership to Brentwood Holdings, LLC (which is owned by Al Kite (30%), John Kite (25%), Paul Kite (25%) and Tom McGowan (20%)). In addition, the operating partnership assumed approximately \$220,000 in accounts payable and repaid another approximately \$3.9 million in existing

indebtedness on the development property. The transaction was approved by the independent members of our Board of Trustees.

In addition, in connection with the Tarpon Springs Plaza property acquisition, we agreed to provide Brentwood Holdings LLC and the Principals with registration rights as to the common shares issuable upon redemption of the units of limited partnership interest issued to Brentwood Holdings, LLC in the acquisition transaction.

Contracts with Kite, Inc.

Kite, Inc. which provides interior construction services, is owned by Al Kite, John Kite, and Paul Kite. We entered into certain agreements with Kite, Inc. in connection with our initial public offering, as described below.

Service Contracts

Kite, Inc. currently is a party to five contracts that were assumed by us in connection with our initial public offering, with a total contract amount of approximately \$2.1 million, relating to the properties contributed to us in connection with our formation transactions. The Company received services totaling \$42,650 during 2005 and the amount payable to Kite, Inc. as of December 31, 2005 was \$166,812.

Office Lease

Kite, Inc. leases office space from us at our headquarters at Thirty South and certain parking spaces at Union Station Parking Garage pursuant to a lease entered into in August 2004. The lease runs through September 2015 and provides for monthly rent payments of \$7,057. We received approximately \$84,684 in rent under this lease in 2005.

Contracts with KMI Management

KMI Management, in which Al Kite, John Kite, Paul Kite and Tom McGowan own direct or indirect interests, leases from us the conference center at our headquarters at Thirty South pursuant to a lease dated January 1, 2004 which we assumed in August 2004 in connection with our initial public offering and related formation transactions. The lease runs through December 2015 and provides for monthly rent payments of \$13,977. The lease is terminable by the tenant on 30 days' notice. We received approximately \$167,724 in rent under this lease in 2005.

Paul Kite Consulting Agreement

In August 2004, we entered into a consulting agreement with Paul Kite pursuant to which he will continue to assist us in identifying real estate retail and commercial development, construction, acquisition and operation projects. Under this agreement, Paul Kite is paid an annual consulting fee of \$150,000. During the term of the agreement, Paul Kite will present to us potential real estate projects that he identifies, and we will have the right to pursue any such project. If we decline or fail to pursue the project, Paul Kite will be permitted to pursue such project himself. The consulting agreement runs through December 31, 2007, although either party has the right to terminate the consulting agreement at any time upon 30 or 60 days' notice in certain circumstances. Decisions regarding termination or amendment of the consulting agreement require the approval of a majority of the independent members of our Board of Trustees. Pursuant to this consulting agreement, we paid Paul Kite \$150,000 in consulting fees in 2005.

Cost-Sharing and Other Agreements with Affiliates

In August 2004, we entered into a cost-sharing agreement with KMI Management, pursuant to which it reimburses us for the cost of administrative and other services we provide to KMI Management and we reimburse it for the cost of construction advisory, human resources and other services KMI provides to us. In 2005 KMI Management reimbursed us \$42,331 and we reimbursed KMI Management \$110,444 under this cost-sharing

agreement. The cost-sharing agreement has a one-year term, but contains automatic one-year renewals unless either party elects not to renew the agreement. Decisions by us regarding termination or amendment of the cost-sharing agreement require the approval of a majority of the independent members of our Board of Trustees.

During 2005 the Company entered into fee-based construction management contracts for the build-out of condominiums in the Indianapolis Conrad Hotel totaling approximately \$7.3 million with Circle Block Partners, LLC, an entity owned by Al Kite, John Kite, Paul Kite and Tom McGowan. During 2005, the Company entered into contracts with Kite, Inc. totaling approximately \$388,000 to perform interior construction service in connection with these construction management contracts.

Circle Block Partners, LLC also leases space from us pursuant to two leases entered into in September and December 2004. The leases run through February and March 2006, respectively, and provide for total monthly rent payments of \$9,471. We received approximately \$113,647 in rent under these leases in 2005.

OTHER MATTERS

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires that our executive officers and trustees, and persons who own more than 10% of a registered class of our equity securities, file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC and the NYSE. Executive officers, trustees and greater than 10% shareholders are required by the SEC to furnish us with copies of all Forms 3, 4 and 5 that they file.

Based on our review of the copies of such forms, and/or on written representations from certain reporting persons that they were not required to file a Form 5 for the fiscal year, we believe that our executive officers, trustees and greater than 10% shareholders complied with all Section 16(a) filing requirements applicable to them with respect to transactions during 2005, with the exception that one late filing was made in 2005 relating to the acquisition of shares by Al Kite's spouse.

Other Matters to Come Before the 2005 Annual Meeting

No other matters are to be presented for action at the annual meeting other than as set forth in this proxy statement. If other matters properly come before the meeting, however, the persons named in the accompanying proxy will vote all proxies solicited by this proxy statement as recommended by our Board of Trustees, or, if no such recommendation is given, in their own discretion.

Shareholders Proposals and Nominations for the 2007 Annual Meeting

Any shareholder proposal pursuant to Rule 14a-8 of the rules promulgated under the Exchange Act, to be considered for inclusion in our proxy materials for the next annual meeting of shareholders must be received at our principal executive offices no later than December 5, 2006.

In addition, any shareholder who wishes to propose a nominee to the Board of Trustees or propose any other business to be considered by the shareholders (other than a shareholder proposal included in our proxy materials pursuant to Rule 14a-8 of the rules promulgated under the Exchange Act) must comply with the advance notice provisions and other requirements of Article II, Section 13 of our bylaws, which are on file with the SEC and may be obtained from Investor Relations upon request. These notice provisions require that nominations of persons for election to the Board of Trustees and the proposal of business to be considered by the shareholders for the 2007 annual meeting must be received no earlier than December 5, 2006 and no later than January 4, 2007.

Householding of Proxy Materials

If you and other residents at your mailing address own common shares in street name, your broker or bank may have sent you a notice that your household will receive only one annual report and proxy statement for each

company in which you hold shares through that broker or bank. This practice of sending only one copy of proxy materials is known as "householding." If you did not respond that you did not want to participate in householding, you were deemed to have consented to the process. If the foregoing procedures apply to you, your broker has sent one copy of our annual report and proxy to your address. You may revoke your consent to householding at any time by sending your name, the name of your brokerage firm and your account number to Household Department, 51 Mercedes Way, Edgewood, NY 11717 (telephone number: 1-800-542-1061). The revocation of your consent to householding will be effective 30 days following its receipt. In any event, if you did not receive an individual copy of this proxy statement or our annual report, we will send a copy to you if you address your written request to or call Kite Realty Group Trust, 30 S. Meridian Street, Suite 1100, Indianapolis, IN 46204, Attention: Investor Relations (telephone number: 317-577-5600). If you are receiving multiple copies of our annual report and proxy statement, you can request householding by contacting Investor Relations in the same manner.

* * * *

By Order of the Board of Trustees,

DAME PROUT
Secretary

Indianapolis, Indiana
April 4, 2006

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KITE REALTY GROUP TRUST
Amended and Restated Charter of the
Audit Committee

I. Purpose

The principal purposes of the Audit Committee (the "Committee") of the Board of Trustees (the "Board") of Kite Realty Group Trust (the "Company") are to (A) assist the Board in the oversight of (i) the integrity of the financial statements of the Company, (ii) the compliance by the Company with legal and regulatory requirements, (iii) the qualification and independence of the Company's independent auditors and (iv) the performance of the Company's internal audit function and independent auditors, and (B) prepare an audit committee report as required by the Securities and Exchange Commission (the "Commission") to be included in the Company's annual proxy statement.

II. Composition and Qualification

The Committee shall be comprised of at least three (3) members of the Board, one of whom shall serve as Chairman of the Committee. The Chairman and all other members of the Committee shall meet the independence, experience, financial literacy and expertise requirements of the New York Stock Exchange, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), the Securities Exchange Act of 1934, as amended, and applicable rules and regulations of the Commission, all as in effect from time to time. At least one member of the Committee shall be an "audit committee financial expert" as defined by the Commission. Because of the Committee's demanding role and responsibilities, and the time commitment of each attendant to Committee membership, if a member of the Committee simultaneously serves on or, upon appointment, would simultaneously serve on, the audit committees of more than three (3) public companies, continued service or appointment is contingent on a determination by the Board that such simultaneous service would not impair the ability of such member to effectively serve on the Committee.

To ensure independence and to otherwise avoid any potential conflicts of interest, members of the Committee may not (other than fees and equity received as compensation for serving as a trustee) accept or receive, directly or indirectly, any consulting, advisory or other compensatory fee from the Company or any of its subsidiaries or

be an affiliated person of the Company or any of its subsidiaries. Because of the significantly greater time commitment of Committee members and in consideration thereof, the Board recognizes that it may be appropriate for members of the Committee to receive reasonable compensation greater than that paid to other members of the Board.

The Chairman and other members of the Committee shall be appointed by the Board, subject to satisfying the standards set forth above. Committee members may be removed by the Board, with or without cause. Any member of the Committee may resign at any time by giving written notice of his or her resignation to the Board.

III. Meetings

The Committee shall meet at least quarterly, or more frequently as the Committee or the Board deems necessary or appropriate. The Chairman of the Committee may call special meetings of the Committee as necessary.

IV. Goals, Authority, Responsibilities and Duties

General

The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of any accounting firm employed by the Company (including the resolution of disputes between management and the accounting firm regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company, and such firm shall report directly to the Committee. In the performance of its duties, the Committee shall meet separately and periodically with management, the internal auditors (or other personnel responsible for the internal audit function) and the independent auditors.

In addition, the Committee shall:

Financial Statement and Disclosure Matters

1. Review and discuss the quarterly unaudited and/or annual audited financial statements with management and the Company's independent auditors, including the results of the independent auditor's review of the financial statements, prior to the Company's issuing its quarterly or year-end earnings release and filing its Quarterly Report on Form 10-Q or Annual Report on Form 10-K, as applicable.

Matters that will be reviewed and discussed include:

- The Company's disclosures in "Management's Discussion and Analysis of Financial Condition and Results of Operations";
 - Major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and any major issues as to the adequacy of the Company's internal controls;
 - Analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
 - The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the Company's financial statements; and
 - In general, the type and presentation of information to be included in earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as review of any financial information and earnings guidance provided to analysts and rating agencies.
2. Determine whether to recommend to the Board the inclusion of the annual audited financial statements in the Company's Annual Report on Form 10-K for the applicable fiscal year.
 - 3.

Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures. The Committee shall also review and evaluate the Company's processes and policies for identifying and assessing key financial statement risk areas and for formulating and implementing steps to address such risk areas. As part of this process, the Committee should discuss guidelines and policies to govern the process by which this is handled. Consistent with the foregoing, the Committee shall also review on an ongoing basis the Company's practices and procedures implemented consistent with the Company's Interest Rate Risk Management Policy (or any similar or replacement policy adopted by the Board of Trustees) as in effect from time to time.

4. Review with the independent auditor any audit problems or difficulties the auditor may have encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information and any significant disagreements with management, and management's response. Such review should include:
 - (a) any accounting adjustments that were noted or proposed by the independent auditor but were passed (as immaterial or otherwise);
 - (b) any communications between the independent auditor and its national office respecting auditing or accounting issues presented by the engagement; and
 - (c) any "management" or "internal control" letters issued, or proposed to be issued, by the independent auditor to the Company.
5. Review the following matters with the independent auditor (such matters shall be timely reported to the Committee by the independent auditor):
 - (a) All critical accounting policies and practices to be used;

 - (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the preferred treatment of the auditor; and
 - (c) Other material written communications between the auditor and management, including any management letter or schedule of unadjusted differences.
6. Meet with the officers certifying the Company's periodic reports pursuant to Section 302 of the Sarbanes-Oxley Act, and any other officers that the Committee deems necessary or appropriate, to:
 - discuss whether there are any significant deficiencies or material weaknesses in the design or operation of the Company's internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information;
 - discuss whether there has been any fraud involving management or other employees who have a significant role in the Company's internal control over financial reporting;
 - discuss whether any changes in the Company's internal control over financial reporting occurred during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, and whether any corrective actions were taken with regard to significant deficiencies or material weaknesses in the Company's internal control over financial reporting; and
 - obtain assurance that the disclosure controls and procedures have been adhered to for the relevant quarter.

7. Review and assess on at least an annual basis the Company's disclosure controls, policies and procedures.
Oversight of the Company's Relationship With the Independent Auditor

8. Be directly responsible and have the sole authority to appoint, compensate, retain, evaluate and terminate the independent auditors to be retained by the Company and to pre-approve all audit services, including the compensation of the independent auditors and all audit engagement fees and terms. The Committee may consult with management but shall not delegate these responsibilities to management. The Committee should meet with the independent auditor prior to the audit to discuss the planning and staffing of the audit.
9. Have the sole authority to, and shall, review and pre-approve, either pursuant to the Committee's Audit and Non-Audit Services Pre-Approval Policy or through a separate pre-approval by the Committee, any engagement of the Company's independent auditor to provide any permitted non-audit service to the Company that is not prohibited by law. The Committee shall have the ability to delegate the authority to pre-approve non-audit services to one (1) or more designated members of the Committee. If such authority is delegated, the delegated member(s) of the Committee shall report to the full Committee, at the next Committee meeting, all items pre-approved by the designated member(s).
10. Receive and review periodic reports, at least annually, prepared by the independent auditors regarding:
 - (a) the auditors' internal quality-control procedures;
 - (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five (5) years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues, and
 - (c) the auditor's independence and all relationships between the independent auditor and the Company.
11. Discuss the reports described in paragraph 10 above with the auditor, and take appropriate action on any disclosed relationship to satisfy itself of the auditor's independence. As part of this process, the Committee should evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence (and taking into account the opinions of management). The Committee also should receive, annually, a letter of independence from the independent auditor. The Committee shall present its conclusions to the Board.
12. Review and evaluate the experience and qualifications of the senior members (including the lead partner) of the independent auditor team and the performance of the independent auditor (which firm ultimately is accountable to the Committee and the Board).
13. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, relating to the conduct of the audit.
14. Request a representation letter from the Company's independent auditor prior to the commencement of the audit engagement confirming that (i) the lead (or coordinating) audit partner and the reviewing audit partner have not performed audit services for the Company for more than five (5) consecutive years, and (ii) if either of such persons performed audit services for the Company for five (5) consecutive years, the last year of such period was more than five (5) years ago.
15. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the lead audit partner or even the independent auditing firm itself on a regular basis.
16. Request evidence from the independent auditors confirming that such firm is registered with the Public Company Accounting Oversight Board.

17. Obtain from the Company's independent auditor the inspection report of the Public Company Accounting Oversight Board.

Oversight of the Company's Internal Controls Over Financial Reporting

18. Review and approve the audit plan and scope of work to be performed by the internal auditor.
19. Review periodically the scope, responsibilities, budget and staffing of the internal audit function.
20. Review and assess the adequacy and effectiveness of the Company's internal control over financial reporting with management, the internal auditor and the independent auditor.
21. Review management's annual report on internal control over financial reporting prior to the Company's inclusion of such annual report in the Company's Annual Report on Form 10-K.
22. Review the independent auditor's attestation report regarding management's assessment of the Company's internal control over financial reporting prior to the inclusion of such attestation report in the Company's Annual Report on Form 10-K.
23. Review and assess any reports to management prepared by the internal auditor and management's response thereto, if any.
24. Review with management any changes in the Company's internal control over financial reporting that occurred during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.
25. Review any significant deficiencies or material weaknesses identified in the Company's internal control over financial reporting, and any special steps taken as a result thereof.

Compliance Oversight Responsibilities

26. Review with the Company's General Counsel (or, in the absence of such officer, other legal counsel of the Company) legal matters that have been brought to the Committee's attention, or matters that have been brought to the General Counsel's attention, that may have a material impact on the Company's financial statements or the Company's compliance policies and internal controls, as well as any material reports or inquiries received from regulatory bodies.
27. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies.

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28. Establish and periodically review procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters.
 29. Establish and periodically review procedures for the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
 30. Review and assess on at least an annual basis the Company's hiring policies with regard to employees or former employees of the independent auditor.
 31. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.

The responsibilities and duties set forth herein are the sole responsibility of the Committee and may not be allocated to a different committee.

V. Additional Powers

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

The Committee shall have the authority to form, and delegate to, one or more subcommittees as it deems necessary or appropriate.

The Committee shall have the sole authority, to the extent it deems necessary or appropriate, to retain and engage advisers for advice and assistance, including any independent accounting or legal counsel, and shall have the sole authority to approve the advisers' fees and other retention terms.

The Committee shall advise the Company of the funding requirements necessary to pay (i) the auditors for the purpose of rendering the audit report or performing other audit, review or attest services, (ii) any other advisers employed by the audit committee, and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee shall have such other authority and responsibilities as may be assigned to it from time to time by the Board.

VI. Reports to Shareholders and Board

The Committee shall prepare the report of the Committee for inclusion in the Company's annual proxy statement in accordance with applicable rules and regulations of the Commission.

The Committee shall regularly report to the Board regarding the status and disposition of the above matters.

VII. Annual Committee Review

The Committee shall conduct an annual review and self-evaluation to determine whether it is functioning effectively and report on such review and evaluation to the Board. The Committee shall annually review and reassess the adequacy of (i) its Audit and Non-Audit Services Pre-Approval Policy, (ii) the Company's Policy regarding Employment Relationships with Independent Auditor and (iii) this Charter and recommend any proposed changes to this Charter to the Board for approval.

VIII. Disclosure

This Charter shall be posted on the Company's website.

IX. Relationship with Auditors and Board

The Company's independent auditors are ultimately accountable to the Board and to the Committee, as representatives of the shareholders of the Company.

While the Committee has the responsibilities and powers set forth in this Charter, its function is one of oversight, and it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles or other applicable rules and regulations. The planning and conduct of the audit is the responsibility of the independent auditor and the financial statements are the responsibility of management.

Effective Date: March 26, 2006

**30 SOUTH MERIDIAN STREET
SUITE 1100**

INDIANAPOLIS, IN 46204

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Kite Realty Group Trust, c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: KITER1

KEEP THIS
PORTION FOR
YOUR
RECORDS

DETACH AND
RETURN THIS
PORTION
ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

KITE REALTY GROUP TRUST

The Board of Trustees recommends a vote for the nominees listed below in Proposal 1 and for Proposal 2.

To withhold authority to vote for any individual nominee(s), mark For All Except and write the name(s) of the nominee(s) on the line below.

**For Withhold For All
All For All Except**

Vote on Trustees

1. To elect seven trustees to serve until the next Annual Meeting of Shareholders and until their successors have been elected and qualified. The nominees are as follows:

.. .. _____

(01) Alvin E. Kite, Jr.

(05)
Eugene

(02) John A. Kite	Golub (06) Gerald L. Moss
(03) William E. Bindley	(07) Michael L. Smith
(04) Dr. Richard A. Cosier	

Vote on Proposal	For All	Withhold For All	For All Except
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2. To ratify the selection of Ernst & Young LLP as the independent auditors for Kite Realty Group Trust for the fiscal year ending December 31, 2006.
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Note: Please sign exactly as your name or names appear on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If the signer is a partnership, please sign in partnership name by authorized person.

Yes No

Please indicate if you plan to attend this meeting
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Signature [PLEASE SIGN WITHIN BOX] Date	Signature (Joint Owners)	Date
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KITE REALTY GROUP TRUST

**PROXY SOLICITED ON BEHALF OF THE BOARD OF TRUSTEES
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 4, 2006**

The undersigned shareholder of Kite Realty Group Trust hereby acknowledges receipt of the Notice of Annual Meeting of Shareholders and Proxy Statement, each dated April 4, 2006, and hereby appoints John A. Kite and Daniel R. Sink, and each of them, as attorneys-in-fact and proxies of the undersigned, with full power of substitution, to vote all of the common shares of Kite Realty Group Trust that the undersigned may be entitled to vote at the Annual Meeting of Shareholders of Kite Realty Group Trust to be held at 30 S. Meridian Street, 8th Floor, Indianapolis, Indiana on Thursday, May 4, 2006 at 9:00 a.m. (local time), and at any and all postponements and adjournments thereof, with all powers that the undersigned would possess if personally present, upon and in respect of the following matters and in accordance with the following instructions.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED HEREON, OR IF NO DIRECTION IS INDICATED, WILL BE VOTED FOR ALL NOMINEES LISTED IN PROPOSAL 1 AND FOR PROPOSAL 2, AND FOR ANY AND ALL OTHER MATTERS AS MAY PROPERLY COME BEFORE THE MEETING, THIS PROXY SHALL BE VOTED WITH DISCRETIONARY AUTHORITY.