

KIMCO REALTY CORP
Form 10-Q
November 07, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number 1-10899

Kimco Realty Corporation

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

3333 New Hyde Park Road, New Hyde Park, NY 11042

(Address of principal executive offices - zip code)

(516) 869-9000

(Registrant's telephone number, including area code)

13-2744380

(I.R.S. Employer Identification No.)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

Large Accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

241,371,780 shares outstanding as of September 30, 2006.

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	SEPTEMBER 30, 2006	DECEMBER 31, 2005
	<hr/>	<hr/>
Assets:		
Operating real estate, net of accumulated depreciation of \$798,418 and \$740,127, respectively	\$ 3,963,461	\$ 3,209,158
Investments and advances in real estate joint ventures	880,682	735,648
Real estate under development	911,267	611,121
Other real estate investments	443,841	283,035
Mortgages and other financing receivables	157,213	132,675
Cash and cash equivalents	102,795	76,273
Marketable securities	191,844	206,452
Accounts and notes receivable	75,763	64,329
Other assets	396,940	215,945
	<hr/>	<hr/>
	\$ 7,123,806	\$ 5,534,636
	<hr/>	<hr/>
Liabilities:		
Notes payable	\$ 2,583,912	\$ 2,147,405
Mortgages payable	494,961	315,336
Construction loans payable	273,750	228,455
Dividends payable	89,803	78,169
Other liabilities	396,556	255,213
	<hr/>	<hr/>
	3,838,982	3,024,578
	<hr/>	<hr/>
Minority interests	367,699	122,844
	<hr/>	<hr/>
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$1.00 par value, authorized 3,600,000 shares		
Class F Preferred Stock, \$1.00 par value, authorized 700,000 shares		
Issued and outstanding 700,000 shares	700	700
Aggregate liquidation preference \$175,000		
Common stock, \$.01 par value, authorized 300,000,000 shares		
Issued 241,918,360 shares; outstanding 241,371,780 shares at September 30, 2006;		

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Issued and outstanding 228,059,056 shares at December 31, 2005	2,414	2,281
Paid-in capital	2,761,250	2,255,332
Retained earnings	101,830	59,855
	<hr/>	<hr/>
	2,866,194	2,318,168
Accumulated other comprehensive income	50,931	69,046
	<hr/>	<hr/>
	2,917,125	2,387,214
	<hr/>	<hr/>
	\$ 7,123,806	\$ 5,534,636
	<hr/>	<hr/>

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

[Back to Contents](#)**KIMCO REALTY CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****For the Three and Nine Months Ended September 30, 2006 and 2005****(Unaudited)****(in thousands, except per share data)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues from rental property	\$ 153,789	\$ 128,311	\$ 446,078	\$ 381,507
Rental property expenses:				
Rent	2,978	2,558	8,835	7,671
Real estate taxes	19,821	16,471	57,145	48,502
Operating and maintenance	18,664	13,576	53,938	44,253
	41,463	32,605	119,918	100,426
	112,326	95,706	326,160	281,081
Mortgage and other financing income	2,847	3,303	15,758	9,873
Management and other fee income	9,819	6,946	29,554	22,076
Depreciation and amortization	(36,842)	(25,902)	(101,714)	(77,496)
General and administrative expenses	(22,624)	(14,084)	(55,923)	(38,834)
Interest, dividends and other investment income	14,109	9,134	38,453	17,607
Other (expense)/income, net	(159)	(1,810)	8,740	9,346
Interest expense	(45,384)	(33,652)	(127,297)	(92,287)
	34,092	39,641	133,731	131,366
(Provision)/Benefit for income taxes	(2,454)	935	(775)	(3,892)
Income from other real estate investments	27,192	13,085	60,939	41,098
Equity in income of real estate joint ventures, net	29,286	18,052	72,798	57,140
Minority interests in income, net	(5,746)	(3,612)	(19,561)	(10,582)
Gain on sale of development properties, net of tax of \$4,262, \$2,433, \$9,893, and \$9,575, respectively	6,394	8,121	14,840	18,835
Income from continuing operations	88,764	76,222	261,972	233,965

Discontinued operations:

Income from discontinued operating properties	1,394	3,526	3,998	7,482
Minority interests in income from discontinued operating properties	(7)	(51)	(1,522)	(129)
Loss on operating properties held for sale/sold			(813)	(2,615)
Gain on disposition of operating properties, net of tax	1,276	4,964	31,331	14,425
Income from discontinued operations	2,663	8,439	32,994	19,163
Gain on transfer of operating properties			1,394	2,301
Loss on transfer of operating properties				(150)
Gain on sale of operating properties		682		682
		682	1,394	2,833
Net income	91,427	85,343	296,360	255,961
Preferred stock dividends	(2,909)	(2,909)	(8,728)	(8,728)
Net income available to common shareholders	\$88,518	\$82,434	\$287,632	\$247,233
Per common share:				
Income from continuing operations:				
-Basic	\$0.36	\$0.33	\$1.08	\$1.01
-Diluted	\$0.35	\$0.32	\$1.05	\$0.99
Net income:				
-Basic	\$0.37	\$0.36	\$1.21	\$1.09
-Diluted	\$0.36	\$0.36	\$1.19	\$1.07
Weighted average shares outstanding for net income calculations:				
-Basic	241,002	227,017	236,789	226,310
-Diluted	246,146	231,733	242,385	230,585

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

[Back to Contents](#)**KIMCO REALTY CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Three and Nine Months Ended September 30, 2006 and 2005****(Unaudited)****(in thousands)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net income	\$91,427	\$85,343	\$296,360	\$255,961
Other comprehensive income:				
Change in unrealized (loss)/gain on marketable securities	(1,429)	11,190	(23,709)	29,480
Change in unrealized (loss)/gain on foreign currency hedge agreements	(160)	(839)	179	2,665
Foreign currency translation adjustment	3,493	1,861	5,415	(477)
Other comprehensive income	1,904	12,212	(18,115)	31,668
Comprehensive income	\$93,331	\$97,555	\$278,245	\$287,629

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

[Back to Contents](#)**KIMCO REALTY CORPORATION AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(in thousands)**

	Nine Months Ended September 30,	
	2006	2005
Cash flow from operating activities:		
Net income	\$296,360	\$255,961
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	102,493	80,563
Loss on operating properties held for sale/sold/transferred	813	2,765
Gain on sale of development properties	(24,733)	(28,410)
Gain on sale/transfer of operating properties	(34,813)	(17,408)
Minority interests in income of partnerships, net	21,083	10,711
Equity in income of real estate joint ventures, net	(72,798)	(57,140)
Income from other real estate investments	(50,954)	(32,329)
Distributions from joint ventures	104,125	87,544
Change in accounts and notes receivable	(9,689)	(11,319)
Change in accounts payable and accrued expenses	52,862	31,533
Change in other operating assets and liabilities	(23,876)	(2,139)
Net cash flow provided by operating activities	<u>360,873</u>	<u>320,332</u>
Cash flow from investing activities:		
Acquisition of and improvements to operating real estate	(484,113)	(278,883)
Acquisition of and improvements to real estate under development	(388,795)	(271,063)
Investment in marketable securities	(62,548)	(70,807)
Proceeds from sale of marketable securities	52,774	27,537
Proceeds from transferred operating properties	129,880	128,537
Investments and advances to real estate joint ventures	(226,214)	(173,359)
Reimbursements of advances to real estate joint ventures	116,301	108,389
Other real estate investments	(203,618)	(93,177)
Reimbursements of advances to other real estate investments	41,060	13,912
Investment in mortgage loans receivable	(111,701)	(68,379)
Collection of mortgage loans receivable	87,294	65,791
Other investments	(101,100)	
Settlement of net investment hedges	(953)	(34,580)
Proceeds from sale of operating properties	74,482	49,283
Proceeds from sale of development properties	122,408	204,142

Net cash flow used for investing activities	(954,843)	(392,657)
Cash flow from financing activities:		
Principal payments on debt, excluding normal amortization of rental property debt	(45,225)	(52,259)
Principal payments on rental property debt	(8,126)	(6,338)
Principal payments on construction loan financings	(55,217)	(70,019)
Proceeds from mortgage/construction loan financings	136,273	216,430
Borrowings under revolving credit facilities	315,663	74,316
Repayment of borrowings under revolving credit facilities	(234,419)	(151,326)
Proceeds from issuance of unsecured notes	478,947	422,429
Repayment of unsecured notes	(130,000)	(130,250)
Financing origination costs	(10,774)	(7,854)
Redemption of minority interests in real estate partnerships	(28,388)	(12,520)
Dividends paid	(242,750)	(215,441)
Proceeds from issuance of stock	444,508	36,877
Net cash flow provided by financing activities	620,492	104,045
Change in cash and cash equivalents	26,522	31,720
Cash and cash equivalents, beginning of period	76,273	38,220
Cash and cash equivalents, end of period	\$102,795	\$69,940
Interest paid during the year (net of capitalized interest of \$15,335, and \$8,567, respectively)	\$95,357	\$72,981
Income taxes paid during the period	\$6,850	\$11,596

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

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KIMCO REALTY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS

1. Interim Financial Statements

Principles of Consolidation -

The accompanying Condensed Consolidated Financial Statements include the accounts of Kimco Realty Corporation (the Company), its subsidiaries, all of which are wholly-owned, and all entities in which the Company has a controlling interest, including where the Company has been determined to be a primary beneficiary of a variable interest entity in accordance with the provisions and guidance of Financial Accounting Standards Board (FASB) Interpretation No. 46(R), Consolidation of Variable Interest Entities (FIN 46(R)) or meets certain criteria of a sole general partner or managing member as identified, in accordance with Emerging Issues Task Force (EITF) Issue 04-5, Investors Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (EITF 04-5). All inter-company balances and transactions have been eliminated in consolidation. The information furnished is unaudited and reflects all adjustments which are, in the opinion of management, necessary to reflect a fair statement of the results for the interim periods presented, and all such adjustments are of a normal recurring nature. These Condensed Consolidated Financial Statements should be read in conjunction with the Company's 2005 Annual Report on Form 10-K and Current Report on Form 8-K dated July 28, 2006.

Income Taxes -

The Company has made an election to qualify, and believes it is operating so as to qualify, as a Real Estate Investment Trust (a REIT) for federal income tax purposes. Accordingly, the Company generally will not be subject to federal income tax, provided that distributions to its stockholders equal at least the amount of its REIT taxable income as defined under Sections 856 through 860 of the Internal Revenue Code, as amended (the Code). However, in connection with the Tax Relief Extension Act of 1999, which became effective January 1, 2001, the Company is now permitted to participate in certain activities which it was previously precluded from in order to maintain its qualification as a REIT, so long as these activities are conducted in entities which elect to be treated as taxable REIT subsidiaries under the Code. As such, the Company will be subject to federal and state income taxes on the income from these activities. During the nine months ended September 30, 2006 and 2005, the Company's provision for federal and state income taxes was approximately \$12.9 million and \$13.6 million, respectively, relating to activities conducted in its taxable REIT subsidiaries.

[Back to Contents](#)*Earnings Per Share -*

On July 21, 2005, the Company's Board of Directors declared a two-for-one split (the "Stock Split") of the Company's common stock which was effected in the form of a stock dividend paid on August 23, 2005 to stockholders of record on August 8, 2005. All share and per share data included in the accompanying Condensed Consolidated Financial Statements and Notes thereto have been adjusted to reflect this split.

The following table sets forth the reconciliation of earnings and the weighted average number of shares used in the calculation of basic and diluted earnings per share (amounts presented in thousands, except per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
<i>Computation of Basic Earnings Per Share:</i>				
Income from continuing operations	\$88,764	\$76,222	\$261,972	\$233,965
Gain on transfer/sale of operating properties, net		682	1,394	2,833
Preferred stock dividends	(2,909)	(2,909)	(8,728)	(8,728)
Income from continuing operations applicable to common shares	85,855	73,995	254,638	228,070
Income from discontinued operations	2,663	8,439	32,994	19,163
Net income applicable to common shares	\$88,518	\$82,434	\$287,632	\$247,233
Weighted average common shares outstanding	241,002	227,017	236,789	226,310
<i>Basic Earnings Per Share:</i>				
Income from continuing operations	\$0.36	\$0.33	\$1.08	\$1.01
Income from discontinued operations	0.01	0.03	0.13	0.08
Net income	\$0.37	\$0.36	\$1.21	\$1.09
<i>Computation of Diluted Earnings Per Share:</i>				
Income from continuing operations applicable to common shares	\$85,855	\$73,995	\$254,638	\$228,070
Distributions on convertible units (a)			747	
Income from continuing operations for diluted earnings per share	85,855	73,995	255,385	228,070
Income from discontinued operations	2,663	8,439	32,994	19,163
Net income for diluted earnings per share	\$88,518	\$82,434	\$288,379	\$247,233
Weighted average common shares outstanding basic	241,002	227,017	236,789	226,310

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Effect of dilutive securities:				
Stock options	5,144	4,716	4,869	4,275
Assumed conversion of convertible units (a)			727	
	<u>246,146</u>	<u>231,733</u>	<u>242,385</u>	<u>230,585</u>
<i>Diluted Earnings Per Share:</i>				
Income from continuing operations	\$0.35	\$0.32	\$1.05	\$0.99
Income from discontinued operations	0.01	0.04	0.14	0.08
	<u>\$0.36</u>	<u>\$0.36</u>	<u>\$1.19</u>	<u>\$1.07</u>

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(a) For the three and nine months ended September 30, 2006 and 2005, the effect of certain convertible units would have an anti-dilutive effect upon the calculation of Income from continuing operations per share. Accordingly, the impact of such conversion has not been included in the determination of diluted earnings per share calculations.

The Company maintains an equity participation plan (the Plan) pursuant to which a maximum of 42,000,000 shares of the Company s common stock may be issued for qualified and non-qualified options and restricted stock grants. Options granted under the Plan generally vest ratably over a three or five year term, expire ten years from the date of grant and are exercisable at the market price on the date of grant, unless otherwise determined by the Board of Directors at its sole discretion. Restricted stock grants vest 100% on the fifth anniversary of the grant. In addition, the Plan provides for the granting of certain options to each of the Company s non-employee directors (the Independent Directors) and permits such Independent Directors to elect to receive deferred stock awards in lieu of directors fees.

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Prior to January 1, 2003, the Company accounted for the Plan under the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations including FASB Interpretation No. 44, Accounting for Certain Transactions involving Stock Compensation (an interpretation of APB Opinion No. 25). Effective January 1, 2003, the Company adopted the prospective method provisions of Statement of Financial Accounting Standards (SFAS) No. 148, Accounting for Stock-Based Compensation Transition and Disclosure, an Amendment of FASB Statement No. 123 (SFAS No. 148), which applies the recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) to all employee awards granted, modified or settled after January 1, 2003.

During December 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123(R)), which is a revision of Statement 123. SFAS No. 123(R) supersedes Opinion 25. Generally, the approach in SFAS No. 123(R) is similar to the approach described in Statement 123. However, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statement of operations based on their fair values. Pro-forma disclosure is no longer an alternative under SFAS No. 123(R). SFAS No. 123(R) is effective for fiscal years beginning after December 31, 2005. The Company began expensing stock based employee compensation with its adoption of the prospective method provisions of SFAS No. 148, effective January 1, 2003, as a result, the adoption of SFAS No. 123(R) did not have a material impact on the Company s financial position or results of operations.

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The non-cash expense related to stock-based employee compensation included in the determination of net income for the three and nine months ended September 30, 2005 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123. There was no difference in amounts for the three and nine months ended September 30, 2006. The following table illustrates the effect on net income and earnings per share if the fair value based method had been applied to all outstanding stock awards for the three and nine months ended September 30, 2005 (amounts presented in thousands except for per share data):

	Three Months Ended September 30,	Nine Months Ended September 30,
	2005	2005
Net income, as reported	\$85,343	\$255,961
Add: Stock based employee compensation expense included in reported net income	1,111	3,184
Deduct: Total stock based employee compensation expense determined under fair value based method for all awards	(1,261)	(3,632)
Pro Forma Net income - Basic	<u>\$85,193</u>	<u>\$255,513</u>
Earnings Per Share		
Basic - as reported	<u>\$0.36</u>	<u>\$1.09</u>
Basic - pro forma	\$	