INLAND REAL ESTATE CORP
Form 10-Q
August 08, 2007

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

FORM 10-Q

Q

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

For the quarterly period ended June 30, 2007

or

q

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

For the transition period from ____________ to ____________

Commission File Number 001-32185

INLAND REAL ESTATE CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	36-3953261
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2901 Butterfield Road, Oak Brook, Illinois	60523
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: 630-218-8000

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **Q** No **q**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer **Q** Accelerated filer **q** Non-accelerated filer **q**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes **q** No **Q**

As of August 8, 2007, there were 65,359,450 shares of common stock outstanding.

INLAND REAL ESTATE CORPORATION
(a Maryland corporation)

TABLE OF CONTENTS

Part I Financial Information

		Page
Item 1.	Financial Statements	
	Consolidated Balance Sheets at June 30, 2007 (unaudited) and December 31, 2006 (audited)	2
	Consolidated Statements of Operations for the three and six months ended June 30, 2007 and 2006 (unaudited)	4
	Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2007 (unaudited)	6
	Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006 (unaudited)	7
	Notes to Consolidated Financial Statements (unaudited)	10
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	24
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	46
Item 4.	Controls and Procedures	47

Part II Other Information

Item 1.	Legal Proceedings	48
Item 1A.	Risk Factors	48
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	48

Item 3.	Defaults Upon Senior Securities	48
Item 4.	Submission of Matters to a Vote of Security Holders	48
Item 5.	Other Information	48
Item 6.	Exhibits	48
	Signatures	50
	Exhibit Index	51

Part I - Financial Information

Item 1. Financial Statements

INLAND REAL ESTATE CORPORATION
Consolidated Balance Sheets
June 30, 2007 and December 31, 2006
(In thousands except per share data)

Assets

		June 30, 2007 (unaudited)	December 31, 2006
Investment properties:			
Land	$	342,228	337,896
Construction in progress		809	434
Building and improvements		998,722	926,014
		1,341,759	1,264,344
Less accumulated depreciation		234,046	218,808
Net investment properties		1,107,713	1,045,536
Cash and cash equivalents		12,468	27,569
Investment in securities (net of an unrealized loss of $831 and $546 at June 30, 2007 and December 31, 2006, respectively)		15,748	16,777
Restricted cash		9,340	4,044
Accounts and rents receivable (net of provision for doubtful accounts of $1,190 and $1,990 at June 30, 2007 and December 31, 2006, respectively)		40,295	33,668
Mortgages receivable		29,657	27,848
Investment in and advances to joint ventures		104,220	74,890
Deposits and other assets		4,340	3,864
Acquired above market lease intangibles (net of accumulated amortization of $2,634 and $2,450 at June 30, 2007 and December 31, 2006, respectively)		2,776	3,118
Acquired in-place lease intangibles (net of accumulated amortization of $8,178 and $6,534 at June 30, 2007 and December 31,2006,		31,508	21,102

respectively)			
Leasing fees (net of accumulated amortization of $1,762 and $1,572 at June 30, 2007 and December 31, 2006, respectively)		3,541	3,378
Loan fees (net of accumulated amortization of $4,614 and $4,107 at June 30, 2007 and December 31, 2006, respectively)		6,885	7,367
Total assets	$	1,368,491	1,269,161

The accompanying notes are an integral part of the financial statements.

2

INLAND REAL ESTATE CORPORATION
Consolidated Balance Sheets (continued)
June 30, 2007 and December 31, 2006
(In thousands except per share data)

Liabilities and Stockholders' Equity

		June 30, 2007 (unaudited)	December 31, 2006
Liabilities:			
Accounts payable and accrued expenses	$	4,607	5,558
Acquired below market lease intangibles (net of accumulated amortization of $3,893 and $3,535 at June 30, 2007 and December 31, 2006, respectively)		4,023	4,537
Accrued interest		3,949	3,683
Accrued real estate taxes		24,392	24,425
Distributions payable		5,329	5,205
Security and other deposits		2,441	2,466
Mortgages payable		667,619	622,280
Line of credit		85,000	28,000
Convertible notes		180,000	180,000
Prepaid rents and unearned income		2,342	2,596
Other liabilities		14,291	10,363
Total liabilities		993,993	889,113
Commitments and contingencies			
Minority interest		2,647	3,065
Stockholders' Equity:			
Preferred stock, $0.01 par value, 6,000 Shares authorized; none issued and outstanding at June 30, 2007 and December 31, 2006		-	-
Common stock, $0.01 par value, 500,000 Shares authorized; 65,297 and 65,059 Shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively		652	650
Additional paid-in capital (net of offering costs of $58,816)		609,603	605,133
Accumulated distributions in excess of net income		(237,573)	(228,254)
Accumulated other comprehensive loss		(831)	(546)
Total stockholders' equity		371,851	376,983

Total liabilities and stockholders' equity	$	1,368,491	1,269,161

The accompanying notes are an integral part of the financial statements.

3

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Operations
For the three and six months ended June 30, 2007 and 2006 (unaudited)
(In thousands except per share data)

		Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenues:					
Rental income	$	33,662	32,284	65,628	63,444
Tenant recoveries		10,747	12,013	25,612	23,977
Other property income		1,139	215	2,005	455
Total revenues		45,548	44,512	93,245	87,876
Expenses:					
Property operating expenses		5,069	4,903	13,229	10,327
Real estate tax expense		7,928	8,016	16,120	16,231
Depreciation and amortization		11,040	9,963	21,084	20,454
General and administrative expenses		3,041	2,944	6,366	5,076
Total expenses		27,078	25,826	56,799	52,088
Operating income		18,470	18,686	36,446	35,788
Other income		1,329	1,031	2,689	2,160
Fee income from unconsolidated joint ventures		456	430	981	1,089
Gain on sale of investment properties		-	-	-	492
Gain on sale of joint venture interest		307	-	2,228	-
Gain on extinguishment of debt		319	-	319	-
Interest expense		(12,436)	(11,015)	(23,919)	(21,259)
Minority interest		(111)	(226)	(219)	(616)
Income before equity in earnings of unconsolidated joint ventures, income tax benefit (expense) of taxable REIT subsidiary and discontinued operations		8,334	8,906	18,525	17,654
Income tax benefit (expense) of taxable REIT subsidiary		10	-	(424)	(53)

Equity in earnings of unconsolidated joint ventures		1,010	768	2,944	1,865
Income from continuing operations		9,354	9,674	21,045	19,466
Discontinued operations:					
Income from discontinued operations (including gain on sale of investment properties of $1,223 and $2,329 for the three months ended June 30, 2007 and 2006, respectively and $1,223 and $2,134 for the six months ended June 30, 2007 and 2006, respectively)		1,351	2,568	1,353	2,652
Net income available to common stockholders		10,705	12,242	22,398	22,118
Other comprehensive income:					
Unrealized gain (loss) on investment securities		127	(212)	(285)	(411)
Comprehensive income	$	10,832	12,030	22,113	21,707

The accompanying notes are an integral part of the financial statements.

4

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Operations
For the three and six months ended June 30, 2007 and 2006 (unaudited)
(In thousands except per share data)

		Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Basic and diluted earnings available to common shares per weighted average common share:					
Income from continuing operations	$	0.14	0.14	0.32	0.29
Discontinued operations		0.02	0.04	0.02	0.04
Net income available to common stockholders per weighted average common share basic and diluted	$	0.16	0.18	0.34	0.33
Weighted average number of common shares outstanding basic		65,178	67,574	65,109	67,527
Weighted average number of common shares outstanding diluted		65,248	67,643	65,179	67,595

The accompanying notes are an integral part of the financial statements.

INLAND REAL ESTATE CORPORATION
Consolidated Statement of Stockholders' Equity
For the six months ended June 30, 2007 (unaudited)
(Dollars in thousands, except per share data)

		Six months ended June 30, 2007
Number of shares		
Balance at beginning of period		65,059
Shares issued from DRP		232
Stock compensation		1
Exercise of stock options		2
Director shares		3
Balance at end of period		65,297
Common Stock		
Balance at beginning of period	$	650
Proceeds from DRP		2
Balance at end of period		652
Additional Paid-in capital		
Balance at beginning of period		605,133
Proceeds from DRP		4,273
Amortization of stock compensation		145
Exercise of stock options		4
Director shares		48
Balance at end of period		609,603
Accumulated distributions in excess of net income		
Balance at beginning of period		(228,254)
Net income available to common stockholders		22,398
Distributions declared ($0.49 per common share outstanding)		(31,717)
Balance at end of period		(237,573)
Accumulated other comprehensive income		
Balance at beginning of period		(546)
Other comprehensive loss		(285)
Balance at end of period		(831)
Total stockholders equity	$	371,851

The accompanying notes are an integral part of these financial statements

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Cash Flows
For the six months ended June 30, 2007 and 2006 (unaudited)
(In thousands)

		Six months ended June 30, 2007	Six months ended June 30, 2006
Cash flows from operating activities:			
Net income	$	22,398	22,118
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		21,084	20,832
Non real estate depreciation and amortization		213	-
Non-cash charges associated with discontinued operations		99	78
Amortization of deferred stock compensation		145	118
Amortization on acquired above market lease intangibles		342	371
Amortization on acquired below market lease intangibles		(514)	(715)
Gain on sale of investment properties		(1,223)	(2,626)
Gain on extinguishment of debt		(319)	-
Realized loss on investment securities		(105)	-
Minority interest		219	616
Equity in earnings from unconsolidated ventures		(2,944)	(1,865)
Gain on sale of joint venture interest		(2,228)	-
Straight line rental income		(784)	(243)
Provision for doubtful accounts		(878)	(469)
Amortization of loan fees		1,040	614
Distributions from unconsolidated joint ventures		4,079	3,569
Mortgage receivable		(267)	(460)
Changes in assets and liabilities:			
Restricted cash		26	(96)
Accounts and rents receivable		(5,014)	(1,937)
Deposits and other assets		971	350
Accounts payable and accrued expenses		736	(691)
Accrued interest payable		420	506
Accrued real estate taxes		(32)	1,542
Security and other deposits		(25)	58
Prepaid rents and unearned income		22	752
Net cash provided by operating activities	$	37,461	42,422

The accompanying notes are an integral part of the financial statements.

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Cash Flows
For the six months ended June 30, 2007 and 2006 (unaudited)
(In thousands)

		Six months ended June 30, 2007	Six months ended June 30, 2006
Cash flows from investing activities:			
Restricted cash	$	(653)	(2,797)
Escrows held for others		103	(73)
Proceeds from sale of interest in joint venture		3,448	-
Purchase of investment securities		(107)	(1,054)
Sale of investment securities		956	986
Additions to investment properties, net of amounts payable		(7,136)	(16,155)
Rental income under master lease agreements		26	(44)
Purchase of investment properties		(88,458)	(53,790)
Purchase of furniture, fixtures and equipment		(3)	(33)
Purchase of computers and software		(1,702)	-
Acquired above market lease intangibles		-	(172)
Acquired in place lease intangibles		(12,049)	(6,489)
Acquired below market lease intangibles		-	140
Distributions from unconsolidated joint ventures		10,169	1,423
Proceeds from sale of investment property, net		970	9,146
Construction in progress		(1,459)	821
Investment in unconsolidated joint ventures		(35,279)	(15,068)
Mortgage receivable		(1,542)	-
Leasing fees		(551)	(593)
Net cash used in investing activities		(133,267)	(83,752)
Cash flows from financing activities:			
Proceeds from the DRP		4,273	2,562
Proceeds from exercise of options		4	-
Directors Shares		48	-
Purchase of minority interest, net		(126)	(5,160)
Loan proceeds		59,585	25,004
Proceeds from unsecured line of credit		75,000	50,000
Repayments on unsecured line of credit		(18,000)	-
Loan fees		(587)	(762)
Other current liabilities		(1,180)	(552)

Distributions paid		(31,966)	(33,228)
Payoff of debt		(5,950)	(10,382)
Principal payments of debt		(396)	(349)
Net cash provided by financing activities		80,705	27,133
Net decrease in cash and cash equivalents		(15,101)	(14,197)
Cash and cash equivalents at beginning of period		27,569	26,804
Cash and cash equivalents at end of period	$	12,468	12,607

The accompanying notes are an integral part of the financial statements.

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Cash Flows
For the six months ended June 30, 2007 and 2006 (unaudited)
(In thousands)

		Six months ended June 30, 2007	Six months ended June 30, 2006
Supplemental schedule of noncash investing and financing activities:			
Purchase of investment properties	$	-	(72,333)
Assumption of mortgage debt		-	18,543
Proceeds from sale of investment properties		8,870	-
Transfer of mortgage debt		(7,900)	-
	$	970	(53,790)
Distributions payable	$	5,329	5,415
Cash paid for interest	$	23,418	20,400
Impact of adoption and re-evaluation of FIN 46:			
Assets:			
Land, building and improvements and construction in progress, net		(6,073)	-
Other assets		(697)	-
Total assets	$	(6,770)	-
Total liabilities and equity	$	(6,770)	-
Investment in and advances to joint ventures at January 1, 2007 and 2006	$	6,574	-

The accompanying notes are an integral part of the financial statements.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Readers of this Quarterly Report should refer to the audited financial statements of Inland Real Estate Corporation (the "Company") for the year ended December 31, 2006, which are included in the Company's 2006 Annual Report, as certain footnote disclosures contained in such audited financial statements have been omitted from this Report on Form 10-Q. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included in this Quarterly Report.

(1) Organization and Basis of Accounting

The Company was formed on May 12, 1994. The Company, collectively with its consolidated entities, is a publicly held real estate investment trust ("REIT") that owns, operates and develops (directly or through its unconsolidated entities) retail shopping centers.

The Company has qualified as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") for federal income tax purposes commencing with the tax year ending December 31, 1995. So long as the Company qualifies for treatment as a REIT, it generally will not be subject to federal income tax to the extent it meets the requirements of the tests imposed by the Code. If the Company fails to qualify as a REIT in any taxable year, the Company will be subject to federal income tax on its taxable income at regular corporate tax rates. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property and federal income and excise taxes on its undistributed income.

Additionally, in connection with the Tax Relief Extension Act of 1999, which became effective January 1, 2001, the Company is permitted to participate in certain activities that were previously prohibited in order to maintain its qualification as a REIT, so long as these activities are conducted in entities that elect to be treated as taxable REIT subsidiaries ("TRS") under the Code, subject to certain limitations. As such, the TRS is subject to federal and state income taxes on the income from these activities.

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Certain reclassifications were made to the 2006 financial statements to conform to the 2007 presentation.

The accompanying consolidated financial statements of the Company include the accounts of its wholly-owned

subsidiaries and consolidated joint ventures. These entities are consolidated because the Company is either the primary beneficiary of a variable interest entity or has substantial influence and controls the entity. The primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual returns. The third parties' interests in these consolidated entities are reflected as minority interest in the accompanying consolidated financial statements. All inter-company balances and transactions have been eliminated in consolidation.

The Company considers all demand deposits, money market accounts and investments in certificates of deposit and repurchase agreements purchased with a maturity of three months or less, at the date of purchase, to be cash equivalents. The Company maintains its cash and cash equivalents at financial institutions. The combined account balances at one or more institutions periodically exceed the Federal Depository Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. The Company believes that the risk is not significant, as the Company does not anticipate the financial institutions' non-performance.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

The Company capitalizes interest costs related to construction in progress and considers both interest paid on debt obtained to fund the project and the interest cost incurred during the period that could have been avoided. The Company has recorded approximately $805 and $93 of capitalized interest related to certain of its development joint ventures for the six months ended June 30, 2007 and 2006, respectively.

On a quarterly basis, in accordance with Statement of Financial Accounting Standards No. 144, the Company reviews impairment indicators and if necessary conducts an impairment analysis to ensure that the carrying value of each property does not exceed its estimated fair value. The Company evaluates its investment properties to assess whether any impairment indicators are present, including recurring operating losses and significant adverse changes in legal factors or business climate. If an investment property is considered impaired, a loss is recorded to reduce the carrying value of the property to its estimated fair value. No such losses have been required or recorded in the accompanying consolidated financial statements as of and for the six months ended June 30, 2007 and 2006.

The Company s joint venture with Inland Real Estate Exchange Corporation has offered tenant-in-common (TIC) interest in properties that it holds together with its joint venture partner, to investors in a private placement exempt from registration under the Securities Act of 1933. These TIC interests may have served as replacement properties for investors seeking to complete like-kind exchange transactions under Section 1031 of the Code. The Company consolidates properties owned by the joint venture when it owns 100% of the equity interests. Upon the first sale of equity interests through the private placement offerings, the Company accounts for its equity interest under the equity method of accounting, as major decisions require unanimous consent by the co-owners that share an undivided interest in the properties. The Company structures its TIC program with acquisition fees, which are due to the Company from the proceeds of the sales. As the Company sells its interest in properties through TIC sales, it recognizes a proportionate share of acquisition fees and gain on sale as each individual transaction is completed.

Tenants required to pay a security deposit under their lease with the Company have paid either in cash or by posting letters of credit. The letters of credit are not recorded in the accompanying consolidated financial statements. As of June 30, 2007 and December 31, 2006, the Company held letters of credit for tenant security deposits totaling approximately $1,355 and $429, respectively.

A mortgage receivable is considered impaired in accordance with SFAS No. 114: "Accounting by Creditors for Impairment of a Loan." Pursuant to SFAS No. 114, a mortgage receivable is impaired if it is probable that the Company will not collect all principal and interest contractually due. The impairment is measured based on the present value of expected future cash flows discounted at the note s effective interest rate. The Company does not accrue interest when a note is considered impaired. When ultimate collectability of the principal balance of the impaired note is in doubt, all cash receipts on the impaired note are applied to reduce the principal amount of the note until the principal has been recovered and are recognized as interest income thereafter. Based upon the Company s judgement, no mortgages receivable were impaired as of June 30, 2007 and December 31, 2006.

The Company adopted the provisions of FASB Interpretation No. 48 "Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109." This Interpretation defines a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. Adoption did not have a material effect on the Company's consolidated financial statements.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

Recent Accounting Principles

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 ("SFAS 157"), Fair Value Measurements. This new standard provides guidance for using fair value to measure assets and liabilities. In this standard, the FASB clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS 157 is not expected to have a material effect on the Company s consolidated financial statements.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, ("SFAS 159"), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain non-financial instruments that are similar to financial instruments) at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, SFAS 159 specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS 159 is not expected to have a material effect on the Company's consolidated financial statements.

The FASB authorized a FASB Staff Position (Proposed FSP 148) that, if issued, would affect the accounting for our convertible and exchangeable senior debentures. If issued in the form expected, the proposed FSP would require that the initial debt proceeds from the sale of our convertible and exchangeable senior debentures be allocated between a liability component and an equity component. The resulting debt discount would be amortized over the period the debt is expected to be outstanding as additional interest expense. The proposed FSP is expected to be effective for fiscal years beginning after December 15, 2007 and would required retrospective application. The Company is currently evaluating the effect of this proposed FSP.

(2) Investment Securities

Investment in securities at June 30, 2007 and 2006 are classified as available-for-sale securities. Available-for sale securities are recorded at fair value. The Company acquires stock on margin. The margin loan is subject to separate terms and conditions. At June 30, 2007 and December 31, 2006 the loan balances were $5,214 and $6,394, respectively, and are included in other liabilities in the accompanying consolidated balance sheets.

Sales of investment securities available-for-sale during the six months ended June 30, 2007 and 2006 resulted in gains on sale of $70 and $40, respectively, which are included in other income in the accompanying consolidated statements of operations. Additionally, during the six months ended June 30, 2007, the Company realized a loss of $105 related to a decline in value of one investment security which was determined to be other than temporary and is also included in other income in the accompanying consolidated statements of operations.

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2007 were as follows:

	Less than 12 months		12 months or longer		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
REIT Common Stock	$ 2,495	(137)	2,794	(128)	5,289	(265)
Non-REIT Common Stock	$ 1,240	(128)	3,035	(714)	4,275	(842)

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

(3) Unconsolidated Joint Ventures

Unconsolidated joint ventures are those where the Company is not the primary beneficiary of a variable interest entity or has substantial influence over but does not control the entity. The Company accounts for its interest in these ventures using the equity method of accounting. The Company s ownership percentage and related investment in each joint venture is summarized in the following table.

Venture Partner	Company's Ownership Percentage		June 30, 2007	December 31, 2006
Crow Holdings Managers, LLC	-		-	1,219
New York State Teachers' Retirement System	50%		62,103	64,556
North American Real Estate, Inc.	45%		3,952	4,350
Oak Property and Casualty	25%		445	227
TMK Development	40%		2,571	-
Paradise Development Group, Inc.	15%		5,229	-
Pine Tree Institutional Realty, LLC	85%		2,519	-
Tucker Development Corporation (a)	90%		27,401	-
Inland Real Estate Exchange Corporation	50%		-	4,538
Investment in and advances to joint ventures		$	104,220	74,890

(a)

Profits and losses for this joint venture are split 52% to Tucker Development Corporation and 48% to the Company.

The Company's proportionate share of the earnings or losses related to these ventures is reflected as equity in earnings of unconsolidated joint ventures on the accompanying consolidated statements of operations. Additionally, the Company earns fees for providing property management, leasing and acquisition activities to these ventures. The Company recognizes only its share of these fees in the accompanying consolidated statements of operations. During the three and six months ended June 30, 2007, the Company earned $456 and $981, respectively in fee income from its unconsolidated joint ventures, as compared to $430 and $1,089 for the three and six months ended June 30, 2006,

respectively. These fees are reflected on the accompanying consolidated statements of operations as fee income from unconsolidated joint ventures.

The operations of properties contributed to the joint ventures by the Company are not recorded as discontinued operations because of the Company's continuing involvement with these shopping centers. Differences between the Company's investment in the joint ventures and the amount of the underlying equity in net assets of the joint ventures are due to basis differences resulting from the Company's equity investment recorded at its historical basis versus the fair value of certain of the Company's contributions to the joint venture. Such differences are amortized over depreciable lives of the joint venture's property assets. During the six months ended June 30, 2007 and 2006, the Company recorded $707 and $683, respectively, of amortization of this basis difference.

During the six months ended June 30, 2007, the Company sold its interest in its joint venture with Crow Holdings Managers, LLC for approximately $3,500. This sale of joint venture interest resulted in a gain on the Company's investment of approximately $2,228.

During the six months ended June 30, 2007, the Company, through its joint venture with TMK Development, sold an additional parcel of land to a third party for approximately $5,040. As a result of the sale and the return of capital received by the Company, the Company re-evaluated the criteria for primary beneficiaries under FIN 46R and determined that it is no longer the primary beneficiary in this variable interest entity and therefore, deconsolidated the joint venture. The joint venture recorded a gain on sale of approximately $1,181, which is recorded in equity in earnings of unconsolidated joint ventures.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

Summarized financial information for the unconsolidated joint ventures is as follows:

		June 30, 2007	December 31, 2006
Balance Sheet:			
Assets:			
Investment in real estate, net	$	499,111	540,721
Other assets		79,458	33,647
Total assets	$	578,569	574,368
Liabilities:			
Mortgage payable	$	310,615	317,949
Other liabilities		27,039	32,398
Total liabilities		337,654	350,347
Total equity		240,915	224,021
Total liabilities and equity	$	578,569	574,368

		Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Statement of Operations:					
Total revenues	$	15,976	13,792	32,962	25,820
Total expenses		(14,307)	(12,947)	(29,107)	(23,229)
Income from continuing operations	$	1,669	845	3,855	2,591

Inland s pro rata share (a)	$	1,010	768	2,944	1,865

(a)

Included in Inland s pro rata share is amortization of the basis difference.

14

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

(4) Mortgages Receivable

On June 30, 2005, the Company entered into a buy-out and restructuring agreement, which amended the previous LLC agreement with a wholly owned subsidiary of Tri-Land Properties, Inc., dated February 1, 2001. The Company is a lender to the wholly owned subsidiary of Tri-Land Properties, Inc. for this redevelopment project. The Company agreed to lend Tri-Land Properties, Inc. up to $21,500. Draws on the loan bear interest at a rate of 8.5% per annum, with 5.5% to be paid currently and the remaining 3% to be accrued, with no additional interest, and paid upon maturity. The loan matures on June 30, 2008. As of June 30, 2007, the balance of this mortgage receivable was $19,288. The loan is secured by the investment property and Tri-Land Properties, Inc. has guaranteed $1,000 of this mortgage receivable. The Company recorded a deferred gain of $3,193 on the sale of its equity investment related to the previous joint venture agreement, as it did not qualify for gain recognition due to the lack of initial investment and continuing involvement. Such amounts are included in other liabilities on the accompanying consolidated balance sheets. Additionally, the Company has recorded $757 of interest income for the six months ended June 30, 2007 and has increased the mortgage receivable balance for unpaid interest by $2,644 since inception.

On October 26, 2006, the Company purchased a 25%, or $10,369, participation interest in a note receivable from Inland American Real Estate Trust, Inc., a related party of The Inland Group, Inc. The loan bears interest at a rate of 9.25% per annum and matures on September 30, 2007. The loan is secured by land owned by the borrower and the borrower has personally guaranteed the balance of the loan. The Company recorded $486 of interest income for the six months ended June 30, 2007.

(5) Transactions with Related Parties

During the six months ended June 30, 2007 and 2006, the Company purchased various administrative services, such as payroll preparation and management, data processing, insurance consultation and placement, property tax reduction services and mail processing from, or through, affiliates of The Inland Group, Inc. The Company pays for these services on an hourly basis. The hourly rate is based on the salary of the individual rendering the services, plus a pro rata allocation of overhead including, but not limited to, employee benefits, rent, materials, fees, taxes and operating expenses incurred by each entity in operating their respective businesses. Computer services were purchased at a contract rate of $60 per hour. The Company continues to purchase these services from The Inland Group, Inc. and its affiliates and for the six months ended June 30, 2007 and 2006, these payments totaled $731 and $383 respectively. Additionally, the Company leases its corporate office space from an affiliate of The Inland Group, Inc. Payments under this lease for the six months ended June 30, 2007 and 2006 were $170 during each period, and are included in general and administrative expenses. The Inland Group, Inc., through affiliates, owns approximately 10.5% of the Company's outstanding common stock. For accounting purposes however, the Company is not directly affiliated with The Inland Group, Inc. or its affiliates.

On June 30, 2005, the Company entered into a buy-out and restructuring agreement, which amended the previous LLC agreement with a wholly owned subsidiary of Tri-Land Properties, Inc., dated February 1, 2001. The Company agreed to lend Tri-Land Properties, Inc. up to $21,500 for the development of the Century Consumer Mall in Merrillville, Indiana. Richard Dube, the brother-in-law of Mr. Daniel Goodwin, the Company's Chairman of the Board, is the president and a principal owner of Tri-Land. Reference is made to Note 4 for more information on the Company's mortgage receivable with Tri-Land.

On August 12, 2003, the Company entered into an agreement with Inland Investment Advisors, Inc., an affiliate of The Inland Group, Inc. to manage its investment in securities. The Company pays a fee of up to one percent per annum on the net asset value under management. The Company paid approximately $80 and $92 for these services during the six months ended June 30, 2007 and 2006, respectively.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

In May 2005, the Company acquired a 1% interest in The Inland Real Estate Group of Companies, Inc. for a purchase price of $1. The Inland Real Estate Group of Companies, Inc. provides assistance in the marketing of the Company's investment properties and provides representation at various trade shows and conventions.

In June and September 2006, the Company entered into joint venture agreements with North American Real Estate, Inc ("NARE") to acquire and develop vacant land located in North Aurora, Illinois. One of our directors, Joel Simmons, is a minority partner in the entity that NARE formed to be the partner in this venture. Mr. Simmons will receive his pro rata share of NARE's earnings from this venture and is not entitled to preferred distributions.

On September 5, 2006, Inland Venture Corporation, a Taxable REIT Subsidiary previously formed by the Company, entered into a limited liability company agreement with Inland Real Estate Exchange Corporation, a wholly-owned subsidiary of The Inland Group, Inc. The resulting joint venture was formed to facilitate Inland Venture Corporation's participation in tax-deferred exchange transactions pursuant to Section 1031 of the Internal Revenue Code using properties made available to the joint venture by Inland Venture Corporation. The Company executed a joinder to the joint venture agreement, agreeing to perform certain expense reimbursement and indemnification obligations thereunder. Inland Venture Corporation will coordinate the joint venture's acquisition, property management and leasing functions, and will earn fees for services provided to the joint venture, including management and leasing fees, as well as syndication fees, which will be split equally between Inland Venture Corporation and Inland Real Estate Exchange Corporation.

Effective October 1, 2006, the Company entered into an agreement with a limited liability company formed as an insurance association captive ("Captive"), which is wholly owned by three other entities previously sponsored by Inland Real Estate Investment Corporation: Inland Retail Real Estate Trust, Inc. (which has been acquired by Developers Diversified Realty Trust), Inland Western Retail Real Estate Trust, Inc. and Inland American Real Estate Trust, Inc. Inland Risk & Insurance Management Services, Inc., an affiliate of The Inland Group, Inc., provides services to the Captive. The Captive was formed to more efficiently manage the respective insurance coverage of the members and the premiums associated with property casualty coverage. The Captive will annually oversee the purchase of one or more insurance policies from a third party insurer that cover properties of its members that will be acceptable to all members. Portions of these insurance policies agreed upon by all members will be funded or reimbursed by insurance policies purchased from the Captive by the members. The premium associated with the non-catastrophic property and casualty insurance policies purchased from the Captive will be divided amongst each of the members based upon a determination by a third-party, independent actuary of the losses, loss reserves and loss expenses that each member is expected to incur and a proportional allocation of associated operating costs. Each member initially contributed approximately $188 to the Captive in the form of a capital contribution and could be required to make annual contributions to fund the loss reserve. During the six months ended June 30, 2007, the Company has made minor claims in the ordinary course of business, but has not been required to make additional capital contributions. The Captive will use this capital to pay a portion of certain property and casualty losses and general liability losses suffered by a member under the policies purchased by the Captive subject to deductibles

applicable to each occurrence. These losses will be paid by the Captive up to and including a certain dollar limit per occurrence, after which the losses are covered by the third party insurer. The Company is required to remain as a member of the Captive for a period of five years even if insurance rates from third party providers are lower than what we get through the Captive. Although the Company s current year policy premium remained consistent with prior premiums, had the Company not entered into the Captive, it could have seen larger increases than it had experienced in the past.

On October 26, 2006, the Company purchased a 25% or $10,369 participation interest in a note receivable from Inland American Real Estate Trust, Inc. (IARETI), a related party of The Inland Group, Inc.

16

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

(6) Discontinued Operations

During the six months ended June 30, 2007 and the year ended December 31, 2006, the Company sold a total of five investment properties. For federal and state income tax purposes, certain of the Company's sales qualified as part of tax deferred exchanges and, as a result, the tax gains are deferred until the replacement properties are disposed of in subsequent taxable transactions. The proceeds from these sales were deposited with a qualified tax deferred exchange agent with the intent of using these proceeds for future acquisitions. The following table summarizes the properties sold, date of sale, indebtedness repaid, approximate sales proceeds, net of closing costs, gain (loss) on sale and whether the sale qualified as part of a tax deferred exchange

Property Name	Date of Sale	Indebtedness repaid	Sales Proceeds (net of closing costs)	Gain (loss) on Sale	Tax Deferred Exchange
Crestwood Plaza	February 22, 2006	904	1,341	(195)	No
Sears	April 27, 2006	1,645	2,664	6	No
Baker Shoes	June 14, 2006	-	3,240	2,323	Yes
Regency Point	September 12, 2006	-	8,078	3,883	Yes
Springhill Fashion Center	May 10, 2007	-	8,860	1,223	Yes

If the Company determines that an investment property meets the criteria to be classified as held for sale, it suspends depreciation on the assets held for sale, including depreciation for tenant improvements and additions, as well as on the amortization of acquired in-place leases and customer relationship values. The assets and liabilities associated with those assets would be classified separately on the consolidated balance sheets for the most recent reporting period. As of June 30, 2007, there were no properties classified as held for sale.

On the accompanying consolidated balance sheets at June 30, 2007 and December 31, 2006, the Company has recorded $1,413 and $44, respectively of assets related to discontinued operations and $244 and $2, respectively of liabilities related to discontinued operations. These amounts are reflected as a component of other assets and other liabilities on the accompanying consolidated balance sheets. Additionally, for the three and six months ended June 30, 2007, the Company has recorded income from discontinued operations of $1,351 and $1,353, respectively, including gains on sale of $1,223 for each period. For the three and six months ended June 30, 2006, the Company recorded income from discontinued operations of $2,568 and $2,652, respectively, including gains on sale of $2,329 and $2,134.

(7) Operating Leases

Certain tenant leases contain provisions providing for "stepped" rent increases. U.S. GAAP requires the Company to record rental income for the period of occupancy using the effective monthly rent, which is the average monthly rent for the entire period of occupancy during the term of the lease. The accompanying consolidated financial statements include increases of $784 and $243, respectively, for the six months ended June 30, 2007 and 2006, respectively, of rental income for the period of occupancy for which stepped rent increases apply and $18,391 and $17,607 in related accounts and rents receivable as of June 30, 2007 and December 31, 2006, respectively. The Company anticipates collecting these amounts over the terms of the leases as scheduled rent payments are made.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

(8) Mortgages Payable

The Company's mortgages payable are secured by certain of its investment properties and consist of the following at June 30, 2007 and December 31, 2006:

Mortgagee	Interest Rate at June 30, 2007	Interest Rate at December 31, 2006	Maturity Date	Current Monthly Payment	Balance at June 30, 2007	Balance at December 31, 2006
Allstate	5.27%	5.27%	11/2012	$ 55	$ 12,500	12,500
Allstate	5.27%	5.27%	12/2012	79	18,000	18,000
Allstate	5.87%	5.87%	09/2009	29	6,000	6,000
Allstate	4.65%	4.65%	01/2010	87	22,500	22,500
Allstate (a)	9.25%	9.25%	12/2009	30	3,835	3,850
Allstate	5.19%	5.19%	08/2012	157	36,200	36,200
Archon Financial	4.88%	4.88%	01/2011	125	30,720	30,720
Bank of America.	5.01%	5.01%	10/2010	26	6,185	6,185
Bank of America	4.11%	4.11%	06/2011	19	5,510	5,510
Bank of America (b)	5.46%	-	04/2017	28	6,060	-
Bank of America (b)	5.54%	-	07/2017	26	5,775	-
Capmark	5.02%	5.02%	08/2011	37	8,800	8,800
Capmark.	4.88%	4.88%	11/2011	38	9,250	17,150
Fifth Third Bank	4.70%	4.70%	10/2010	48	12,380	12,380
GEMSA	6.75%	6.75%	06/2008	26	4,625	4,625
John Hancock Life Insurance (a)	7.65%	7.65%	01/2018	76	11,923	11,998
Key Bank	7.00%	7.00%	11/2008	151	25,000	25,000
Key Bank	5.00%	5.00%	10/2010	31	7,500	7,500
LaSalle Bank N.A.	5.52%	5.52%	04/2010	64	13,550	13,550
LaSalle Bank N.A. (c)	4.86%	4.86%	08/2007	59	14,326	14,326
LaSalle Bank N.A.	4.88%	4.88%	11/2011	51	12,500	12,500
LaSalle Bank N.A.	6.22%	6.25%	12/2010	42	7,833	7,833
LaSalle Bank N.A. (d)	6.72%	6.75%	04/2010	14	2,468	2,468
LaSalle Bank N.A. (d)	6.72%	6.75%	06/2010	16	2,732	2,732

LaSalle Bank N.A. (d)	6.72%	6.75%	06/2010	13	2,255	2,255
LaSalle Bank N.A. (d)	6.72%	6.75%	04/2010	14	2,400	2,400
LaSalle Bank N.A. (c) (d)	7.12%	7.15%	08/2007	85	14,055	14,056
LaSalle Bank N.A. (c) (d)	7.12%	7.15%	12/2007	54	8,948	14,898
LaSalle Bank N.A. (d)	6.72%	6.75%	07/2010	62	10,654	10,654
LaSalle Bank N.A. (d) (e)	4.11%	4.38%	12/2014	21	6,200	6,200
LaSalle Bank N.A. (c) (d)	6.72%	7.08%	08/2007	25	4,378	4,378
Metlife Insurance Company	4.71%	4.71%	12/2010	79	20,100	20,100
Midland Loan Service (a) (c)	7.79%	7.79%	10/2007	89	13,155	13,268
Midland Loan Serv. (a)	7.86%	7.86%	01/2008	30	4,602	4,646
Midland Loan Serv. (a)	5.17%	5.17%	04/2014	81	18,135	18,283
Nomura Credit & Capital (b)	5.60%	-	04/2017	182	39,000	-
Principal Life Insurance	5.96%	5.96%	12/2008	55	11,000	11,000
Principal Life Insurance	5.25%	5.25%	10/2009	32	7,400	7,400
Principal Life Insurance	3.99%	3.99%	06/2010	109	32,930	32,930
Principal Life Insurance	5.05%	5.05%	01/2014	26	16,250	16,250
Principal Real Estate Investors	5.05%	-	04/2014	37	8,750	-
Wachovia Securities.	6.36%	6.36%	10/2008	289	54,600	54,600
Wells Fargo (c)	6.03%	6.03%	07/2007	68	13,600	13,600
Wells Fargo	6.60%	6.60%	03/2009	44	8,000	8,000
Wells Fargo	5.01%	5.01%	04/2010	64	15,300	15,300
Wells Fargo	5.14%	5.14%	04/2010	48	11,125	11,125
Wells Fargo	5.17%	5.17%	04/2010	102	23,690	23,690
Wells Fargo.	4.11%	4.11%	06/2011	114	33,220	33,220
Wells Fargo	5.01%	5.01%	10/2010	7	1,700	1,700
Mortgages Payable				$	667,619	622,280

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

(a) These loans require payments of principal and interest monthly; all other loans listed are interest only.

(b) These properties are owned through our joint venture with Inland Real Estate Exchange Corporation. The properties are currently consolidated because the Company's TIC interest is 100%. Upon the first sale of equity interests through the private placement offerings, the Company will account for these properties using the equity method of accounting.

(c) Approximately $68,462 of the Company's mortgages payable mature during 2007. The Company intends to replace these loans with new debt for terms of five years or longer at the market interest rate at the time the existing debt matures.

(d) Payments on these mortgages are calculated using a floating rate of interest based on LIBOR.

(e) As part of the purchase of the property securing this loan, the Company assumed the existing mortgage-backed Economic Development Revenue Bonds, Series 1994, issued by the Village of Skokie, Illinois. The interest rate on these bonds floats and is reset weekly by a re-marketing agent. The rate at June 30, 2007 was 4.11%. The bonds are further secured by an Irrevocable Letter of Credit, issued by LaSalle Bank at a fee of 1.25% of the principal amount outstanding, paid annually. In addition, the Company is required to pay a re-marketing fee of 0.125% per annum of the principal amount outstanding, paid quarterly, and a trustee fee of $500, also paid quarterly.

The following table presents the principal amount of the debt maturing each year, including monthly annual amortization of principal, through December 31, 2011 and thereafter, based on debt outstanding at June 30, 2007:

2007	$	70,279
2008		189,892
2009		29,528
2010		195,841
2011		100,573
Thereafter		346,506

Total	$	932,619

(9) Line of Credit

On June 28, 2002, the Company entered into a $100,000 unsecured line of credit arrangement with KeyBank N.A. for a period of three years. The funds from this line of credit are used to purchase additional investment properties.

On April 22, 2005, the Company completed a second amendment to this line of credit. The aggregate commitment of the Company's line is $400,000 and matures on April 22, 2008. The Company pays interest only on draws under the line at the rate equal to 120 160 basis points over LIBOR. The Company is also required to pay, on a quarterly basis, an amount less than 1% per annum on the average daily funds remaining under this line. In conjunction with this amendment, the Company paid approximately $541 in fees and costs. The outstanding balance on the line of credit was $85,000 and $28,000 as of June 30, 2007 and December 31, 2006, respectively.

The line of credit requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of June 30, 2007, the Company was in compliance with these covenants.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

(10)

Convertible Notes

On November 13, 2006, the Company issued $180,000 aggregate principal amount of 4.625% convertible senior notes due 2026, which included the exercise by the initial purchasers of their option to purchase an additional $10,000 to cover over-allotments. The Company received net proceeds of approximately $177,300 after deducting selling discounts and commissions. The Company used the net proceeds from the offering to repurchase 2,776 shares of its common stock at a price equal to $18.01 per share (approximately $50,000 in the aggregate) concurrently with the closing of the offering. The Company also used the net proceeds to repay approximately $120,000 in outstanding indebtedness under the Company s revolving credit facility with KeyBank National Association. The Company used the remaining net proceeds for general corporate purposes, including to pay the expenses of the offering.

Interest on the notes is payable on May 15 and November 15 of each year beginning May 15, 2007. The notes mature on November 15, 2026 unless repurchased, redeemed or converted in accordance with their terms prior to that date. The Company may not redeem the notes prior to the date on which they mature except to the extent necessary to preserve its status as a REIT. Following the occurrence of certain change in control transactions, the Company may be required to repurchase the notes in whole or in part for cash at 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest. At June 30, 2007, the Company has recorded $1,087 of accrued interest related to the convertible notes. This amount is included in accrued interest on the Company's consolidated balance sheets at June 30, 2007.

Holders may convert their notes into cash or a combination of cash and common stock, at the Company s option, at any time on or after October 15, 2026, but prior to the close of business on the second business day immediately preceding November 15, 2026, and also following the occurrence of certain events. Subject to certain exceptions, upon a conversion of notes the Company will deliver cash and shares of our common stock, if any, based on a daily conversion value calculated on a proportionate basis for each trading day of the relevant 30 day trading period. The current conversion rate is 48.2824 shares of common stock, subject to adjustment under certain circumstances. This is equivalent to a conversion price of approximately $20.71 per share of common stock.

(11) Earnings per Share

Basic earnings per share ("EPS") is computed by dividing net income by the basic weighted average number of common shares outstanding for the period (the "common shares"). Diluted EPS is computed by dividing net income by the common shares plus shares issuable upon exercise of existing options or other contracts.

As of June 30, 2007, 65 shares of common stock issued pursuant to employment agreements were outstanding, of which 22 have vested. Additionally, the Company issued 34 shares pursuant to employment incentives of which 8 have vested. The unvested shares are excluded from the computation of basic EPS but reflected in diluted EPS by

application of the treasury stock method. As of June 30, 2007 and December 31, 2006, options to purchase 39 and 26 shares of common stock, respectively at exercise prices ranging from $10.45 to $19.96 per share were outstanding, respectively. These options were not included in the computation of basic or diluted EPS as the effect would be immaterial. Convertible notes are included in the computation of diluted EPS using the if-converted method, to the extent the impact of conversion is dilutive.

The basic weighted average number of common shares outstanding were 65,109 and 67,527 for the six months ended June 30, 2007 and 2006, respectively. The diluted weighted average number of common shares outstanding were 65,179 and 67,595 for the six months ended June 30, 2007 and 2006, respectively.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements

June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

(12) Deferred Stock Compensation

The Company has agreed to issue common stock to certain officers of the Company pursuant to employment agreements entered into with these officers and employment incentives.

As of June 30, 2007, the Company has issued the following shares:

Fiscal year shares issued	Shares issued pursuant to employment agreements	Shares issued pursuant to employment incentives	Average share price on the date of issuance	Aggregate value of shares issued pursuant to employment agreements	Aggregate value of shares issued pursuant to employment incentives	Deferred stock compensation
Prior to 2004	5	-	$ 11.00	$ 60	$ -	$ -
2004	32	15	12.93	411	193	235
2005	19	11	15.18	290	167	264
2006	8	8	16.01	129	130	207
2007	1	-	18.28	23	-	22
	65	34		$ 913	$ 490	$ 728

The share price of the issued shares is determined by averaging the high and low selling price on the date of issue, as reported by the New York Stock Exchange. Prior to 2004, the share value was determined to be equal to the last price at which the Company sold shares, prior to its listing on the New York Stock Exchange. Each officer vests an equal portion of shares over a five-year vesting period, beginning one year from the date of issuance of the award. The officers may receive additional restricted shares of the Company's common stock, which are also subject to a five-year vesting period. The number of these shares is to be determined based upon the future performance of the Company. Salary expense of $218 and $118 were recorded in connection with the vesting of these shares, for the six months ended June 30, 2007 and 2006, respectively.

(13) Segment Reporting

The Company owns and acquires well located open air retail centers. The Company currently owns investment properties located in the States of Florida, Illinois, Indiana, Michigan, Minnesota, Missouri, Nebraska, Ohio, Tennessee, Texas and Wisconsin. These properties are typically anchored by grocery and drug stores, complemented with additional stores providing a wide range of other goods and services.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)

(In thousands, except per share data and square footage amounts)

The Company assesses and measures operating results on an individual property basis for each of its investment properties based on property net operating income. Because all of the Company's investment properties exhibit highly similar economic characteristics, generally have tenants that offer products catering to the day-to-day living needs of individuals and offer similar degrees of risk and opportunities for growth, the shopping centers have been aggregated and reported as one operating segment.

The property net operating income is summarized in the following table for the three and six months ended June 30, 2007 and 2006, along with reconciliation to income from continuing operations. Net investment properties and other related segment assets, non-segment assets and total assets are also presented as of June 30, 2007 and 2006:

		Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Rental income	$	32,934	31,882	64,672	62,836
Tenant recoveries		10,747	12,013	25,612	23,977
Other property income		1,139	215	2,005	455
Total property operating expenses		(4,640)	(4,696)	(12,675)	(9,807)
Real estate tax expense		(7,928)	(8,016)	(16,120)	(16,231)
Property net operating income		32,252	31,398	63,494	61,230
Other income:					
Straight-line rental income		641	233	784	265
Amortization of lease intangibles		87	169	172	343
Other income		1,329	1,031	2,689	2,160
Fee income on unconsolidated joint ventures		456	430	981	1,089
Gain on sale of investment properties		-	-	-	492
Gain on extinguishment of debt		319	-	319	-
Gain on sale of joint venture interest		307	-	2,228	-
Other expenses:					
Depreciation and amortization		(11,040)	(9,963)	(21,084)	(20,454)

Bad debt expense		(429)	(207)		(554)	(520)
General and administrative expenses		(3,041)	(2,944)		(6,366)	(5,076)
Interest expense		(12,436)	(11,015)		(23,919)	(21,259)
Minority interest		(111)	(226)		(219)	(616)
Income before equity in earnings of unconsolidated joint ventures and income tax benefit (expense) of taxable REIT subsidiary		8,334	8,906		18,525	17,654
Income tax benefit (expense) of taxable REIT subsidiary		10	-		(424)	(53)
Equity in earnings of unconsolidated joint ventures		1,010	768		2,944	1,865
Income from continuing operations	$	9,354	9,674		21,045	19,466
Net investment properties and related assets, including discontinued operations					1,190,173	1,138,135
Non-segment assets					178,318	121,351
Total assets				$	1,368,491	1,259,486

22

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
June 30, 2007 (unaudited)
(In thousands, except per share data and square footage amounts)

(14) Commitments and Contingencies

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of these matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material adverse effect on the financial statements of the Company.

(15) Subsequent Events

On July 17, 2007, the Company paid a cash distribution of $0.08167 per share on the outstanding shares of its common stock to stockholders of record at the close of business on July 2, 2007.

On July 17, 2007, the Company announced that it had declared a cash distribution of $0.08167 per share on the outstanding shares of its common stock. This distribution is payable on August 17, 2007 to the stockholders of record at the close of business on July 31, 2007.

Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Quarterly Report on Form 10-Q constitute "forward-looking statements" within the meaning of the Federal Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical, including statements regarding management's intentions, beliefs, expectations, representations, plans or predictions of the future and are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "may," "will," "should" and "could." The Company intends that such forward-looking statements be subject to the safe harbors created by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements involve numerous risks and uncertainties that could cause our actual results to be materially different from those set forth in the forward-looking statements. Examples of factors which could affect our performance are set forth in our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission on March 1, 2007, under the heading "Risk Factors."

Data in this section is presented in thousands, except per share data and square footage data.

This section provides the following:

- an executive summary and our strategies and objectives;
- the critical accounting policies that impact the treatment, for financial statement purposes, of certain items such as how we value our investment properties, recognize rental income and depreciate our assets;
- a discussion of our consolidated balance sheets and consolidated statements of cash flows and how the changes in balance sheet and cash flow items from period to period impact our liquidity and capital resources;
- a discussion of our results of operations, including changes in Funds From Operations ("FFO") from year to year and a discussion of the impact that inflation may have on our results; and
- a discussion of the important factors that may impact your investment.

We have qualified as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") for federal income tax purposes commencing with the tax year ending December 31, 1995. So long as we qualify for treatment as a REIT, we generally will not be subject to federal income tax to the extent we meet the requirements of the tests imposed by the Code. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax on our taxable income at regular corporate tax rates. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property and federal income and excise taxes on our undistributed income.

Additionally, in connection with the Tax Relief Extension Act of 1999, which became effective January 1, 2001, we are permitted to participate in certain activities that were previously prohibited in order to maintain our qualification as a REIT, so long as these activities are conducted in entities that elect to be treated as taxable REIT subsidiaries ("TRS") under the Code, subject to certain limitations. As such, the TRS is subject to federal and state income taxes on the income from these activities.

Executive Summary

We are an owner/operator of Neighborhood Retail Centers (gross leasable areas ranging from 5,000 to 150,000 square feet) and Community Centers (gross leasable areas in excess of 150,000 square feet). We are a self-administered REIT incorporated under Maryland law. We also may construct or develop properties or render services in connection with such development or construction. As of June 30, 2007, we owned interests in 149 investment properties, including those owned through our unconsolidated joint ventures.

Essentially all of our revenues and cash flows are generated by collecting rental payments from our tenants. Our goal is to continue increasing our revenues by acquiring additional investment properties and re-leasing those spaces that are vacant, or may become vacant, at more favorable rental rates. During the six months ended June 30, 2007, we executed 51 new and 103 renewal leases, aggregating approximately 471,000 square feet. The 51 new leases comprise approximately 164,000 square feet with an average rental rate of $21.44 per square foot, a 39.2% increase over the average expiring rate. The 103 renewal leases comprise approximately 307,000 square feet with an average rental rate of $16.97 per square foot, a 17.0% increase over the average expiring rate. We believe we have significant acquisition opportunities due to our reputation and our concentration of properties in the Chicago and Minneapolis-St. Paul metropolitan areas. We will use cash provided by our Dividend Reinvestment Plan, proceeds from financings on previously unencumbered properties, draws on our line of credit and earnings we retain that are not distributed to our stockholders to continue purchasing additional investment properties.

Our largest expenses relate to the operation of our properties as well as the interest expense on our mortgages payable and other debt obligations. Our property operating expenses include, but are not limited to, real estate taxes, regular maintenance, landscaping, snow removal and periodic renovations to meet tenant needs. Pursuant to the lease agreements, tenants of the property are required to reimburse the Company for some or all of the particular tenant's pro rata share of the real estate taxes and operating expenses of the property.

We consider FFO a widely accepted and appropriate measure of performance for a REIT. FFO provides a supplemental measure to compare our performance and operations to that of other REITs. Due to certain unique operating characteristics of real estate companies, NAREIT, an industry trade group, has promulgated a standard known as FFO, which it believes more accurately reflects the operating performance of a REIT such as ours. As defined by NAREIT, FFO means net income computed in accordance with U.S. generally accepted accounting principles (U.S. GAAP), excluding gains (or losses) from sales of operating property, plus depreciation and amortization and after adjustments for unconsolidated partnership and joint ventures in which the REIT holds an interest. We have adopted the NAREIT definition for computing FFO. Management uses the calculation of FFO for several reasons. We use FFO to compare our performance to that of other REITs in our peer group. Additionally, FFO is used in certain employment agreements to determine incentives payable by us to certain executives, based on our performance. The calculation of FFO may vary from entity to entity since capitalization and expense policies tend to vary from entity to entity. Items that are capitalized do not impact FFO whereas items that are expensed reduce FFO. Consequently, our presentation of FFO may not be comparable to other similarly titled measures presented by other REITs. FFO does not represent cash flows from operations as defined by U.S. GAAP, it is not indicative of cash available to fund all cash flow needs and liquidity, including our ability to pay distributions and should not be considered as an alternative to net income, as determined in accordance with U.S. GAAP, for purposes of evaluating our operating performance.

We believe EBITDA is useful to us and to an investor as a supplemental measure in evaluating our financial performance because it excludes expenses that we believe may not be indicative of our operating performance. EBITDA is defined as earnings (losses) from operations, calculated in accordance with U.S. GAAP, excluding: (1) interest expense; (2) income tax benefit or expenses; (3) depreciation and amortization. By excluding interest expense, EBITDA measures our financial performance regardless of how we finance our operations and capital structure. By excluding depreciation and amortization expense, we believe we can more accurately assess the performance of our portfolio. Because EBITDA is calculated before recurring cash charges such as interest expense and taxes and is not adjusted for capital expenditures or other recurring cash requirements, it neither reflects the amount of capital needed to maintain our properties nor reflects trends in interest costs due to changes in interest rates or increases in borrowing. EBITDA should be considered only as a supplement to net earnings and may be calculated differently by other equity REITs.

We look at several factors to measure our operating performance:

To measure our operating results to those of other retail real estate owners/operators in our area, we compare:

- occupancy percentage; and

- our rental rates to the average rents charged by our competitors in similar centers.

To measure our operating results to those of other REITs, we compare:

25

- company-wide growth in income or FFO;
- same store growth in income; and
- general and administrative expenses as a percentage of investment in properties.

Based on the above measures, we have historically performed comparably with those in our property sector peer group.

There are costs and issues associated with re-leasing our properties, including:

- length of time required to fill vacancies;
- possibly releasing at rental rates lower than current market rates;
- leasing costs associated with the new lease such as leasing commissions and tenant improvement allowances; and
- paying operating expenses without tenant reimbursements.

Strategies and Objectives

Our primary business objective is to enhance the performance and value of our investment properties through management strategies that address the needs of an evolving retail marketplace. Our commitment to operating our centers efficiently and effectively is, we believe, a direct result of our expertise in the acquisition, development/re-development, either directly or through a joint venture, management and leasing of our properties. We focus on the following areas in order to achieve our objectives:

Acquisitions:

- We seek to selectively acquire well located open air retail centers.

- We acquire properties either without financing contingencies or by assuming existing debt to provide us with a competitive advantage over other potential purchasers.

- We concentrate our property acquisitions in areas where we have a large market concentration. In doing this, we believe we are able to attract new retailers to the area and possibly lease several locations to them. Additionally, we are able to get existing retailers to lease more space at our current investment properties.

Joint Ventures:

- We actively pursue new development opportunities through joint ventures with established local developers.

- We have formed joint ventures to acquire stabilized retail properties as well as properties to be re-developed and vacant land to be developed. We earn fees from the joint ventures for providing property management, acquisition and leasing services.

- We have formed a joint venture to acquire properties that will ultimately be sold through an offering of tenant-in-common interests in properties to investors. We earn fees from the joint venture for providing property management, acquisition and leasing services.

Operations:

- We actively manage costs to minimize operating expenses by centralizing all management, leasing, marketing, financing, accounting and data processing activities.

- We improve rental income and cash flow by aggressively marketing rentable space.

- We emphasize regular maintenance and periodic renovation to meet the needs of tenants and to maximize long-term returns.

- We maintain a diversified tenant base consisting primarily of retail tenants providing consumer goods and services.

- We proactively review our existing portfolio for potential re-development opportunities.

Acquisitions and Dispositions

During the six months ended June 30, 2007 and the year ended December 31, 2006, we completed the following acquisitions and dispositions:

Acquisitions during the six months ended June 30, 2007:

- Five investment properties, totaling approximately 697,378 square feet, for approximately $99,775 in the aggregate for our joint venture with Inland Real Estate Exchange Corporation;

- 53 acres of vacant land through our joint venture with Paradise Development Group, Inc. for approximately $12,326;

- 32 acres of vacant land through our joint venture with Pine Tree Institutional Realty, LLC for approximately $11,945, and

- 74 acres of vacant land through our joint venture with Tucker Development Corporation for approximately $27,545.

Dispositions during the six months ended June 30, 2007:

- 25 acres of vacant land through our joint venture with TMK Development, Ltd., and

- One investment property.

Total proceeds from these sales were approximately $6,461.

Acquisitions during the year ended December 31, 2006:

- Eight investment properties, totaling approximately 1,351,000 square feet, for approximately $266,300 in the aggregate;

- 56 acres of vacant land through our joint venture with TMK Development, Ltd. for approximately $8,400;

- Vacant parcel of land at Shakopee Valley Marketplace for approximately $848; and

- 57 acres of vacant land through our joint ventures with North American Real Estate, Inc. for approximately $27,200.

Dispositions during the year ended December 31, 2006:

- 15 acres of vacant land through our joint venture with TMK Development Ltd; and

- Four investment properties.

Total proceeds from these sales were approximately $27,901.

27

Critical Accounting Policies

General

A critical accounting policy is one that, we believe, would materially affect our operating results or financial condition, and requires management to make estimates or judgments in certain circumstances. We believe that our most critical accounting policies relate to the valuation and allocation of investment properties, determining whether assets are held for sale, recognition of rental income and lease termination income, our cost capitalization and depreciation policies and consolidation/equity accounting policies. These judgments often result from the need to make estimates about the effect of matters that are inherently uncertain. U.S. GAAP requires information in financial statements about accounting principles, methods used and disclosures pertaining to significant estimates. The following disclosure discusses judgments known to management pertaining to trends, events or uncertainties that were taken into consideration upon the application of critical accounting policies and the likelihood that materially different amounts would be reported upon taking into consideration different conditions and assumptions.

Valuation and Allocation of Investment Properties. On a quarterly basis, in accordance with Statement of Financial Accounting Standards No. 144, we review impairment indicators and, if necessary, conduct an impairment analysis to ensure that the carrying value of each investment property does not exceed its estimated fair value. We evaluate our investment properties to assess whether any impairment indicators are present, including recurring operating losses and significant adverse changes in legal factors or business climate. If an investment property is considered impaired, a loss is recorded to reduce the carrying value of the property to its estimated fair value. No such losses have been required or recorded in the accompanying financial statements as of and for the six months ended June 30, 2007 and 2006.

In determining the value of an investment property and whether the property is impaired, management considers several factors, such as projected rental and vacancy rates, property operating expenses, capital expenditures and interest rates. The capitalization rate used to determine property valuation is based on the market in which the property is located, length of leases, tenant financial strength, the economy in general, demographics, environment, property location, visibility, age, physical condition and investor return requirements among others. Market capitalization rates fluctuate based on factors such as interest rates. An increase in capitalization rates might result in a market valuation lower than our original purchase price. Additionally, we obtain an appraisal prepared by a third party at the time we purchase the investment property. All of the aforementioned factors are considered by management in determining the value of any particular property. The value of any particular property is sensitive to the actual results of any of these uncertain factors, either individually or taken as a whole. Should the actual results differ from management's judgment, the valuation could be negatively or positively affected.

We allocate the purchase price of each acquired investment property between land, building and improvements, other intangibles (including acquired above market leases, acquired below market leases, customer relationships and acquired in-place leases) and any financing assumed that is determined to be above or below market terms. The allocation of the purchase price is an area that requires complex judgments and significant estimates. The value allocated to land as opposed to building affects the amount of depreciation expense we record. If more value is attributed to land, depreciation expense is lower than if more value is attributed to building and improvements. We use the information contained in the third party appraisals as the primary basis for allocating the purchase price between land, building and improvements. We determine whether any financing assumed is above or below market based upon comparison to similar financing terms for similar investment properties.

The aggregate value of other intangibles is measured based on the difference between the purchase price and the property valued as if vacant. We utilize information contained in independent appraisals and management's estimates to determine the respective as if vacant property values. Factors considered by management in our analysis of determining the as if vacant property value include an estimate of carrying costs during the expected lease-up periods considering current market conditions, and costs to execute similar leases and the risk adjusted cost of capital. In estimating carrying costs, management includes real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, up to 24 months. Management also estimates costs to execute similar leases including leasing commissions, tenant improvements, legal and other related expenses.

We allocate the difference between the purchase price of the property and the as if vacant value first to acquired above and below market leases. We evaluate each acquired lease based upon current market rates at the acquisition date and consider various factors including geographic location, size and location of leased space within the investment property, tenant profile and the credit risk of the tenant in determining whether the acquired lease is above or below market. After an acquired lease is determined to be above or below market, we allocate a portion of the purchase price to the acquired above or below market lease based upon the present value of the difference between the contractual lease rate and the estimated market rate. The determination of the discount rate used in the present value calculation is based upon a rate for each individual lease and primarily based upon the credit worthiness of each individual tenant. The value of the acquired above and below market leases is amortized over the life of the related leases as an adjustment to rental income.

We then allocate the remaining difference to the value of acquired in-place leases and customer relationships based on management's evaluation of specific leases and our overall relationship with the respective tenants. The evaluation of acquired in-place leases consists of a variety of components including the costs avoided associated with originating the acquired in-place lease, including but not limited to, leasing commissions, tenant improvement costs and legal costs. We also consider the value associated with lost revenue related to tenant reimbursable operating costs and rental income estimated to be incurred during the assumed re-leasing period. The value of the acquired in-place lease is amortized over the average lease term as a component of amortization expense. We also consider whether any customer relationship value exists related to the property acquisition. As of June 30, 2007, we had not allocated any amounts to customer relationships.

The valuation and possible subsequent impairment in the value of our investment properties is a significant estimate that can and does change based on management's continuous process of analyzing each property.

Cost Capitalization and Depreciation Policies. We review all expenditures and capitalize any item that is deemed to be an upgrade or a tenant improvement. If we capitalize more expenditures, current depreciation expense would be higher; however, total current expenses would be lower. Depreciation expense is computed using the straight-line method. Buildings and improvements are depreciated based upon estimated useful lives of 30 years for buildings and improvements, 15 years for site improvements and the remaining life of the related lease for tenant improvements.

Assets Held for Sale. In determining whether to classify an asset as held for sale, we consider whether: (i) management has committed to a plan to sell the asset; (ii) the asset is available for immediate sale, in its present condition; (iii) we have initiated a program to locate a buyer; (iv) we believe that the sale of the asset is probable; (v) we have received a significant non-refundable deposit for the purchase of the property; (vi) we are actively marketing the asset for sale at a price that is reasonable in relation to its current value; and (vii) actions required for us to complete the plan indicate that it is unlikely that any significant changes will be made to the plan.

If all of the above criteria are met, we classify the asset as held for sale. On the day that these criteria are met, we suspend depreciation on the assets held for sale, including depreciation for tenant improvements and additions, as well as on the amortization of acquired in-place leases and customer relationship values. The assets and liabilities associated with those assets that are held for sale are classified separately on the consolidated balance sheets for the most recent reporting period. Additionally, the operations for the periods presented are classified on the consolidated statements of operations as discontinued operations for all periods presented.

Recognition of Rental Income and Tenant Recoveries. Under U.S. GAAP, we are required to recognize rental

income based on the effective monthly rent for each lease. The effective monthly rent is equal to the average monthly rent during the term of the lease, not the stated rent for any particular month. The process, known as "straight-lining" rent, generally has the effect of increasing rental revenues during the early phases of a lease and decreasing rental revenues in the latter phases of a lease. If rental income calculated on a straight-line basis exceeds the cash rent due under the lease, the difference is recorded as an increase to both deferred rent receivable and rental income in the accompanying consolidated statements of operations. If the cash rent due under the lease exceeds rental income calculated on a straight-line basis, the difference is recorded as a decrease to both deferred rent receivable and rental income in the accompanying consolidated statements of operations. In accordance with Staff Accounting Bulletin 101, we defer recognition of contingent rental income, such as percentage/excess rent, until the specified target that triggers the contingent rental income is achieved. We periodically review the collectibility of outstanding receivables. Allowances are taken for those balances that we deem to be uncollectible, including any amounts relating to straight-line rent receivables.

Tenant recoveries are primarily comprised of real estate tax and common area maintenance reimbursement income. Real estate tax income is based on an accrual reimbursement calculation by tenant, based on an estimate of current year real estate taxes. As actual real estate tax bills are received, we reconcile with our tenants and adjust prior year income estimates in the current period. Common area maintenance income is accrued on actual common area maintenance expenses as incurred. Annually, we reconcile with the tenants for their share of the expenses per their lease and we adjust prior year income estimates in the current period.

Recognition of Lease Termination Income. We accrue lease termination income if there is a signed termination agreement, all of the conditions of the agreement have been met and the tenant is no longer occupying the property.

Consolidation/Equity Accounting Policies. We consolidate the operations of a joint venture if we determine that we are either the primary beneficiary of a variable interest entity or have substantial influence and control of the entity. The primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual returns. There are significant judgments and estimates involved in determining the primary beneficiary of a variable interest entity or the determination of who has control and influence of the entity. When we consolidate an entity, the assets, liabilities and results of operations of a variable interest entity are included in our consolidated financial statements.

In instances where we are not the primary beneficiary of a variable interest entity or we do not control the joint venture, we use the equity method of accounting. Under the equity method, the operations of a joint venture are not consolidated with our operations but instead our share of operations is reflected as equity in earnings of unconsolidated joint ventures on our consolidated statement of operations. Additionally, our net investment in the joint venture is reflected as investment in and advances to joint venture as an asset on the consolidated balance sheets.

Liquidity and Capital Resources

This section describes our balance sheet and discusses our liquidity and capital commitments. Our most liquid asset is cash and cash equivalents which consists of cash and short-term investments. Cash and cash equivalents at June 30, 2007 and December 31, 2006 were $12,468 and $27,569, respectively. See our discussion of the statements of cash flows for a description of our cash activity during the six months ended June 30, 2007 and 2006. We consider all demand deposits, money market accounts and investments in certificates of deposit and repurchase agreements purchased with a maturity of three months or less, at the date of purchase, to be cash equivalents. We maintain our cash and cash equivalents at financial institutions. The combined account balances at one or more institutions periodically exceed the Federal Depository Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposits in excess of FDIC insurance coverage. We believe that the risk is not significant, as we do not anticipate the financial institutions' non-performance.

Income generated from our investment properties is the primary source from which we generate cash. Other sources of cash include amounts raised from the sale of securities under our Dividend Reinvestment Plan ("DRP"), our draws on the line of credit with KeyBank N.A., which may be limited due to covenant compliance requirements, proceeds from financings secured by our investment properties and earnings we retain that are not distributed to our stockholders. As of June 30, 2007, we had approximately $65,000 available under our $150,000 line of credit. If necessary, such as for new acquisitions, we believe we can generate cash flow by entering into financing arrangements or joint ventures with institutional investors. During the year ended December 31, 2006, we issued $180,000 aggregate principal amount of 4.625% convertible notes due in 2026. Net proceeds from the convertible notes were used to pay down our line of credit with KeyBank N.A. by $120,000 and we also repurchased 2,776 shares of our

common stock at a price equal to $18.01 per share (approximately $50,000 in the aggregate). We use our cash primarily to pay distributions to our stockholders, for operating expenses at our investment properties, for purchasing additional investment properties, joint venture commitments and to repay draws on the line of credit.

Certain joint venture commitments require us to invest cash in non-operating property under development and in properties that do not necessarily meet our investment criteria but which are offered for syndication through our joint venture with Inland Real Estate Exchange Corporation. Capital could be committed for periods longer than expected if development timelines are longer or syndication velocity is slower than anticipated.

As of June 30, 2007, we owned interests in 149 investment properties, including those owned through our unconsolidated joint ventures. Of the 149 investment properties owned, thirty-one are currently unencumbered by any indebtedness. These thirty-one investment properties are wholly-owned by us and are consolidated We generally limit our secured indebtedness to approximately 50% of the original purchase price, or current market value if higher, of the investment properties in the aggregate. These thirty-one unencumbered investment properties were purchased for an aggregate purchase price of approximately $166,558 and would therefore yield at least $83,279 in additional cash from financing, using this standard. In the aggregate, all of our 149 investment properties are currently generating sufficient cash flow to pay our operating expenses, debt service requirements and distributions equal to $0.98 per share on an annual basis.

The following table presents the principal amount of the debt maturing each year, including monthly annual amortization of principal, through December 31, 2011 and thereafter based on debt outstanding at June 30, 2007:

2007	$	70,279
2008 (a)		189,892
2009		29,528
2010		195,841
2011		100,573
Thereafter (b)		346,506
Total	$	932,619

(a)

Included in the debt maturing during 2008 is our line of credit with KeyBank N.A. This line of credit requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of June 30, 2007, we were in compliance with such covenants.

(b)

Included in the debt maturing in the thereafter total is our convertible notes issued during 2006, which mature in 2026.

The following table summarizes our consolidated statements of cash flows for the six months ended June 30, 2007 and 2006:

		2007	2006
Net cash provided by operating activities	$	37,461	42,422
Net cash used in investing activities	$	(133,267)	(83,752)

Net cash provided by financing activities	$	80,705	27,133

Statements of Cash Flows

2007 Compared to 2006

Net cash provided by operating activities during the six months ended June 30, 2007 decreased $4,961, as compared to the six months ended June 30, 2006. This decrease was primarily the result of the payment of larger common area maintenance expenses on our investment properties due to increased snow removal costs incurred during the six months ended June 30, 2007, as compared to the six months ended June 30, 2006. This decrease was offset by an increase in cash flows from operations generated by properties acquired during 2007 and 2006, subsequent to their acquisitions and operating distributions received from the operations of our joint ventures.

Net cash used in investing activities increased by $49,515 as we acquired five investment properties for our joint venture with Inland Real Estate Exchange Corporation during the six months ended June 30, 2007 at a cost of $100,507 and completed $7,136 in additions to our investment properties, as compared to the acquisition of four investment properties during the six months ended June 30, 2006 at a cost of $60,311 and completed $16,155 in additions to our investment properties. Additionally, we increased our cash investment by $20,211 for the purchase of vacant land through our development joint ventures. Offsetting this increase in cash used is proceeds received during the six months ended June 30, 2007 for the sale of our interest in one of our unconsolidated joint ventures, the sale of vacant land through another and additional distributions from our unconsolidated joint venture activities.

Net cash provided by financing activities during the six months ended June 30, 2007 increased $53,572, as compared to the six months ended June 30, 2006. The increase in cash provided by financing activities is primarily due to loan proceeds of $59,585 and net proceeds from our line of credit of $57,000 during the six months ended June 30, 2007, as compared to loan proceeds of $25,004 and proceeds from the line of credit of $50,000 during the six months ended June 30, 2006. This increase is offset by a decrease in the purchase of mino