

INLAND REAL ESTATE CORP
Form 10-Q
November 06, 2006

**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 September 30, 2006

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
(State or other jurisdiction
of incorporation or organization)

36-3953261
(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

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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 No

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

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

As of November 6, 2006, there were 67,800,628 shares of common stock outstanding.

INLAND REAL ESTATE CORPORATION
(a Maryland corporation)

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Part I - Financial Information**Item 1. Financial Statements**

INLAND REAL ESTATE CORPORATION
Consolidated Balance Sheets
September 30, 2006 and December 31, 2005
(In thousands except per share data)

Assets

	September 30, 2006 (unaudited)	December 31, 2005
Investment properties:		
Land	\$ 341,470	317,604
Construction in progress	-	821
Building and improvements	929,511	878,614
	1,270,981	1,197,039
Less accumulated depreciation	210,864	188,483
Net investment properties	1,060,117	1,008,556
Cash and cash equivalents	18,337	26,804
Investment in securities (net of an unrealized loss of \$469 and an unrealized gain of \$293 at September 30, 2006 and December 31, 2005, respectively)	17,511	19,133
Restricted cash	10,709	4,049
Accounts and rents receivable (net of provision for doubtful accounts of \$2,410 and \$2,798 at September 30, 2006 and December 31, 2005, respectively)	34,192	31,742
Mortgages receivable	16,088	11,406
Investment in and advances to joint ventures	70,789	52,889
Deposits and other assets	3,743	2,959
Acquired above market lease intangibles (net of accumulated amortization of \$2,282 and \$1,856 at September 30, 2006 and December 31, 2005, respectively)	3,430	3,831
Acquired in-place lease intangibles (net of accumulated amortization of \$6,155 and \$4,395 at September 30, 2006 and December 31,	23,594	19,942

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2005, respectively)		
Leasing fees (net of accumulated amortization of \$1,738 and \$1,387 at September 30, 2006 and December 31, 2005, respectively)	3,182	2,795
Loan fees (net of accumulated amortization of \$3,786 and \$2,735 at September 30, 2006 and December 31, 2005, respectively)	4,600	4,893
Total assets	\$ 1,266,292	1,188,999

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

INLAND REAL ESTATE CORPORATION
Consolidated Balance Sheets (continued)
September 30, 2006 and December 31, 2005
(In thousands except per share data)

Liabilities and Stockholders' Equity

	September 30, 2006 (unaudited)	December 31, 2005
Liabilities:		
Accounts payable and accrued expenses	\$ 3,463	4,560
Acquired below market lease intangibles (net of accumulated amortization of \$3,567 and \$3,216 at September 30, 2006 and December 31, 2005, respectively)	4,921	7,477
Accrued interest	3,075	2,426
Accrued real estate taxes	20,791	22,946
Distributions payable	5,422	5,401
Security and other deposits	2,450	2,423
Mortgages payable	628,926	602,817
Line of credit	142,000	65,000
Prepaid rents and unearned income	2,562	2,752
Other liabilities	11,235	12,631
Total liabilities	824,845	728,433
Commitments and contingencies		
Minority interest	8,328	18,748
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 6,000 Shares authorized; none issued and outstanding at September 30, 2006 and December 31, 2005	-	-
Common stock, \$0.01 par value, 500,000 Shares authorized; 67,768 and 67,502 Shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	678	675
Additional paid-in capital (net of offering costs of \$58,816)	653,790	649,797
Accumulated distributions in excess of net income	(220,880)	(208,947)
Accumulated other comprehensive income (loss)	(469)	293
Total stockholders' equity	433,119	441,818

Total liabilities and stockholders' equity	\$	1,266,292	1,188,999
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The accompanying notes are an integral part of the financial statements.

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Operations
For the three and nine months ended September 30, 2006 and 2005 (unaudited)
(In thousands except per share data)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenues:				
Rental income	\$ 32,951	31,213	97,103	95,068
Tenant recoveries	11,465	11,458	35,804	35,940
Lease termination income	200	-	322	6,264
Other property income	232	210	482	630
Total revenues	44,848	42,881	133,711	137,902
Expenses:				
Property operating expenses	4,397	4,843	14,352	16,966
Real estate tax expense	7,910	8,414	24,232	23,990
Bad debt expense	244	54	775	785
Depreciation and amortization	10,267	9,665	31,018	30,088
General and administrative expenses	2,428	2,339	7,374	6,503
Total expenses	25,246	25,315	77,751	78,332
Operating income	19,602	17,566	55,960	59,570
Other income	1,389	738	3,297	1,590
Fee income from unconsolidated joint ventures	657	540	1,747	1,463
Gain on sale of investment properties	132	223	623	68
Interest expense	(11,490)	(10,070)	(32,875)	(30,980)
Minority interest	(194)	(299)	(810)	(732)
Equity in earnings of unconsolidated joint ventures	553	1,237	2,419	3,170
Income from continuing operations	10,649	9,935	30,361	34,149
Discontinued operations:				
Income from discontinued operations (including gain on sale of investment properties of \$3,883 and \$263 for the	3,977	446	6,383	1,068

three
 months ended September 30, 2006 and 2005,
 respectively and \$6,017 and \$481 for the nine
 months ended September 30, 2006 and 2005)

Net income available to common stockholders	14,626	10,381	36,744	35,217
Other comprehensive income:				
Unrealized gain (loss) on investment securities	(352)	631	(762)	560
Comprehensive income	\$ 14,274	11,012	35,982	35,777

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

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Operations
For the three and nine months ended September 30, 2006 and 2005 (unaudited)
(In thousands except per share data)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Basic and diluted earnings available to common stockholders per weighted average common share:				
Income from continuing operations	\$ 0.16	0.15	0.45	0.51
Discontinued operations	0.06	-	0.09	0.01
Net income available to common stockholders per weighted average common share basic and diluted	\$ 0.22	0.15	0.54	0.52
Weighted average number of common shares outstanding basic	67,668	67,309	67,574	67,192
Weighted average number of common shares outstanding diluted	67,737	67,358	67,643	67,241

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

INLAND REAL ESTATE CORPORATION
Consolidated Statement of Stockholders' Equity
For the nine months ended September 30, 2006
(Dollars in thousands, except per share data)
(unaudited)

		Nine months ended September 30, 2006
<i>Number of shares</i>		
Balance at beginning of period		67,502
Shares issued from DRP		250
Stock compensation		16
Balance at end of period		67,768
 <i>Common Stock</i>		
Balance at beginning of period	\$	675
Proceeds from DRP		3
Balance at end of period		678
 <i>Additional Paid-in capital</i>		
Balance at beginning of period		649,797
Amortization of stock compensation		184
Proceeds from DRP		3,809
Balance at end of period		653,790
 <i>Accumulated distributions in excess of net income</i>		
Balance at beginning of period		(208,947)
Net income available to common stockholders		36,744
Distributions declared (\$0.72 per common share outstanding)		(48,677)
Balance at end of period		(220,880)
 <i>Accumulated other comprehensive income</i>		
Balance at beginning of period		293
Other comprehensive loss		(762)
Balance at end of period		(469)
 <i>Total stockholders' equity</i>	 \$	 433,119

The accompanying notes are an integral part of these financial statements

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Cash Flows
For the nine months ended September 30, 2006 and 2005 (unaudited)
(In thousands)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Cash flows from operating activities:		
Net income	\$ 36,744	35,217
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	31,018	30,564
Non-cash charges associated with discontinued operations	186	25
Amortization of deferred stock compensation	184	126
Amortization on acquired above market lease intangibles	552	694
Amortization on acquired below market lease intangibles	(1,044)	(1,478)
Net gain on sale of investment properties	(6,640)	(549)
Minority interest	810	732
Equity in earnings from unconsolidated ventures	(2,419)	(3,171)
Mortgages receivable	(3,682)	(236)
Straight line rental income	(606)	404
Provision for doubtful accounts	(344)	(70)
Amortization on unamortized loan fees	960	1,267
Distributions from unconsolidated joint ventures	4,780	1,705
Changes in assets and liabilities:		
Restricted cash	991	(695)
Accounts and rents receivable	(1,776)	(1,325)
Deposits and other assets	(712)	1,052
Accounts payable and accrued expenses	(1,331)	745
Accrued interest	649	(98)
Accrued real estate taxes	(2,155)	738
Security and other deposits	27	196
Prepaid rents and unearned income	(187)	(270)
Net cash provided by operating activities	\$ 56,005	65,573

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

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Cash Flows
For the nine months ended September 30, 2006 and 2005 (unaudited)
(In thousands)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Cash flows from investing activities:		
Restricted cash	\$ (7,651)	817
Proceeds from sale of interest in joint venture	-	500
Escrows held for others	(112)	(719)
Purchase of investment securities	(1,333)	(8,554)
Sale of investment securities	2,193	1,733
Additions to investment properties, net of amounts payable	(20,193)	(10,963)
Rental income under master lease agreements	(112)	48
Purchase of investment properties	(66,538)	(71,231)
Purchase of furniture, fixtures and equipment	(66)	(72)
Acquired above market lease intangibles	(179)	(132)
Acquired in place lease intangibles	(8,051)	(8,997)
Acquired below market lease intangibles	145	2,666
Distributions from unconsolidated joint ventures	1,423	6,064
Proceeds from sale of investment property, net	21,186	63,955
Construction in progress	821	(1,132)
Investment in unconsolidated joint ventures	(17,657)	(916)
Leasing fees	(962)	(831)
 Net cash used in investing activities	 (97,086)	 (27,764)
Cash flows from financing activities:		
Proceeds from the DRP	3,812	4,451
Proceeds from exercise of options	-	135
Repurchase of shares	-	(19)
Loan proceeds	25,080	94,997
Net proceeds (repayments) from unsecured line of credit	77,000	(10,000)
Loan fees	(843)	(2,397)
Purchase of minority interest units	(10,160)	-
Distributions paid	(49,726)	(49,458)
Other liabilities	(1,635)	3,311
Payoff of debt	(10,382)	(80,869)
Principal payments of debt	(532)	(496)

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Net cash provided by (used in) financing activities	32,614	(40,345)
Net decrease in cash and cash equivalents	(8,467)	(2,536)
Cash and cash equivalents at beginning of period	26,804	35,508
Cash and cash equivalents at end of period	\$ 18,337	32,972

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

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Cash Flows
For the nine months ended September 30, 2006 and 2005 (unaudited)
(In thousands)

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Supplemental schedule of noncash investing and financing activities:		
Purchase of investment properties	\$ (85,081)	(142,538)
Assumption of mortgage debt	18,543	61,625
	\$ (66,538)	(80,913)
Contribution of properties and other assets, net of accumulated depreciation	\$ 6,980	37,782
Debt associated with contribution of properties	(3,300)	(16,789)
	\$ 3,680	20,993
Deferred gain on sale of interest in joint venture	\$ -	3,193
Distributions payable	\$ 5,422	5,560
Cash paid for interest	\$ 31,402	29,973
Impact of adoption and re-evaluation of FIN 46:		
Assets:		
Land, building and improvements and construction in progress, net	-	(9,281)
Other assets	-	(480)
Total assets	\$ -	(9,761)
Total liabilities and equity	\$ -	(9,761)
Investment in and advances to joint ventures at January 1, 2006 and 2005	\$ -	-

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

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2006 (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, 2005, which are included in the Company's 2005 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 2005 financial statements to conform to the 2006 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 over or controls the entity. The primary beneficiary is the party that absorbs a majority of the entity's expected residual returns and losses. 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
September 30, 2006 (unaudited)
(In thousands, except per share data and square footage amounts)

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 and 15 years for site improvements. The Company accounts for tenant allowances as tenant improvements. Tenant improvements are depreciated over the life of the related lease.

Acquired above and below market leases are amortized on a straight-line basis over the life of the related leases as an adjustment to rental income. Acquired in-place leases and customer relationship values are amortized over the average lease term as a component of amortization expense.

The Company allocates 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 assumed financing that is determined to be above or below market terms. The Company uses the information contained in the third party appraisals as the primary basis for allocating the purchase price between land and site improvements. The aggregate value of other intangibles is measured based on the difference between the purchase price and the property valued as if vacant.

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 \$93 of capitalized interest related to its joint venture with Tucker Development Corporation for the nine months ended September 30, 2006.

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 financial statements as of and for the nine months ended September 30, 2006 and 2005.

Leasing fees are amortized on a straight-line basis over the life of the related lease. Loan fees are amortized on a straight-line basis over the life of the related loan.

Offering costs are offset against the stockholders' equity accounts. Offering costs consist principally of printing, selling and registration costs.

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 September 30, 2006 and December 31, 2005, the Company held letters of credit for tenant security deposits totaling approximately \$429 for each period.

Rental income is recognized on a straight-line basis over the term of each lease. The difference between rental income earned on a straight-line basis and the cash rent due under provisions of the lease agreements is recorded as deferred rent receivable and is included as a component of accounts and rents receivable in the accompanying consolidated balance sheets.

The Company accrues 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.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2006 (unaudited)
(In thousands, except per share data and square footage amounts)

On December 2, 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin 101 "Revenue Recognition in Financial Statements." The staff determined that a lessor should defer recognition of contingent rental income, such as percentage/excess rent until the specified target that triggers the contingent rental income is achieved. The Company has recorded percentage rental revenue in accordance with the SAB for all periods presented.

As of September 30, 2006 and 2005, the Company had no material derivative instruments. The Company may enter into derivative financial instrument transactions in order to mitigate its interest rate risk on a related financial instrument. The Company may designate these derivative financial instruments as hedges and apply hedge accounting, as the instrument to be hedged will expose the Company to interest rate risk, and the derivative financial instrument will reduce that exposure. Gains or losses related to the derivative financial instrument would be deferred and amortized over the terms of the hedged instruments. If a derivative terminates or is sold, the gain or loss is recognized. The Company will generally enter into derivative transactions that satisfy the aforementioned criteria only.

Recent Accounting Principles

In June 2005, the FASB ratified the EITF's consensus on Issue No. 04-5 "Determining Whether a General Partner or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights." This consensus establishes the presumption that general partners in a limited partnership control that limited partnership regardless of the extent of the general partners' ownership interest in the limited partnership. The consensus further establishes that the rights of the limited partners can overcome the presumption of control by the general partners, if the limited partners have either (a) the substantive ability to dissolve (liquidate) the limited partnership or otherwise remove the general partners without cause or (b) substantive participating rights. Whether the presumption of control is overcome is a matter of judgement based on the facts and circumstances, for which the consensus provides additional guidance. This consensus is currently applicable to the Company for new or modified partnerships, and is applicable to existing partnerships in 2006. This consensus applies to limited partnerships or similar entities, such as limited liability companies that have governing provisions that are the functional equivalent of a limited partnership. Adoption did not have a material effect on the Company's consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48 "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 derecognizing, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the effect of this Interpretation.

In September 2006, the SEC's staff issued SAB No. 108 "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements." This Bulletin provides guidance on the

consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The guidance in this Bulletin must be applied to financial reports covering the first fiscal year ending after November 15, 2006. The Company is currently evaluating the guidance in this Bulletin.

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.

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2006 (unaudited)
(In thousands, except per share data and square footage amounts)

(2) Investment Securities

The Company classifies its investment in securities in one of three categories: trading; available-for-sale; or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities in which the Company has the ability and intent to hold the security until maturity. All securities not included in trading or held-to-maturity are classified as available-for-sale.

Investment in securities at September 30, 2006 and 2005 are classified as available-for-sale securities. Available-for sale securities are recorded at fair value. Unrealized holding gains and losses on available-for-sale securities are excluded from earnings and reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are calculated using the first in first out ("FIFO") method of accounting. Dividend income is recognized when received. The Company acquires stock on margin. The margin loan is subject to its terms and conditions. At September 30, 2006 and December 31, 2005 the loan balances were \$7,607 and \$9,242, respectively, and are included in other liabilities in the accompanying consolidated balance sheets.

A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other than temporary, the Company considers whether it has

the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to the end of the period and forecasted performance of the investee.

Sales of investment securities available-for-sale during the nine months ended September 30, 2006 and 2005 resulted in gains on sale of \$254 and \$5, respectively. These gains are 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 September 30, 2006 were as follows:

Description of Securities	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
REIT stock	\$ 2,619	(161)	2,541	(115)	5,160	(276)
Non-REIT stock	\$ 3,217	(626)	738	(84)	3,955	(710)

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
September 30, 2006 (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 does not have substantial influence over or control the entity. The Company accounts for its interest in these ventures using the equity method of accounting. Pertinent information related to these ventures is summarized in the following table.

Venture Partner	Company's Ownership Percentage	September 30, 2006	December 31, 2005
Crow Holdings Managers, LLC	50.0%	\$ 1,316	1,480
New York State Teachers' Retirement System	50.0%	65,089	51,409
North American Real Estate, Inc.	45.0%	1,757	-
North American Real Estate, Inc.	45.0%	2,627	-
Investment in and advances to unconsolidated joint ventures		\$ 70,789	52,889

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.

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 nine months ended September 30, 2006 and 2005, the Company recorded \$1,030 and \$1,053, respectively, of amortization of this basis difference.

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

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	September 30, 2006	December 31, 2005
Balance Sheet:		
Assets:		
Investment in real estate, net	\$ 442,683	264,861
Other assets	82,834	83,709
Total assets	\$ 525,517	348,570
Liabilities:		
Mortgage payable	\$ 287,348	158,799
Other liabilities	24,831	22,944
Total liabilities	312,179	181,743
Total equity	213,338	166,827
Total liabilities and equity	\$ 525,517	348,570

INLAND REAL ESTATE CORPORATION
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	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Statement of Operations:				
Total revenues	\$ 13,906	9,394	40,233	21,399
Total expenses	(13,496)	(7,776)	(37,533)	(17,834)
Income from continuing operations	\$ 410	1,618	2,700	3,565
Inland s pro rata share	\$ 207	899	1,389	2,117

(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 will continue to be 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 September 30, 2006, the balance of this mortgage receivable was \$15,088. 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 \$748 of interest income for the nine months ended September 30, 2006 and has increased the mortgage receivable balance for unpaid interest by \$2,257 since inception.

In conjunction with the sale of Sears Plaza in Montgomery, Illinois, the Company gave a purchase money mortgage to the buyer in the amount of \$1,000. The buyer is required to pay interest only on a monthly basis at a rate of 9.0% per annum. The balance of the mortgage, and any unpaid interest, are to be paid on May 1, 2007.

(5) Transactions with Related Parties

During the nine months ended September 30, 2006 and 2005, 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 \$50 per hour. The Company continues to purchase these services from The Inland Group, Inc. and its affiliates and for the nine months ended September 30, 2006 and 2005, these expenses, totaling \$523 and \$556, respectively, are included in general and administrative expenses and property operating expenses.

Additionally, the Company leases its corporate office space from an affiliate of The Inland Group, Inc. Payments under this lease for the nine months ended September 30, 2006 and 2005 were \$255 and \$170, respectively, and are also included in general and administrative expenses. The Inland Group, Inc., through affiliates, owns approximately 9.8% 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.

INLAND REAL ESTATE CORPORATION

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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 \$138 and \$69 for these services during the nine months ended September 30, 2006 and 2005, respectively.

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 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.

(6) Discontinued Operations

During the nine months ended September 30, 2006 and the year ended December 31, 2005, the Company sold a total of seven investment properties. Additionally, the Company has sold portions of certain other 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, approximate sales proceeds, net of closing costs, gain 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
Sequoia Shopping Center	April 22, 2005	\$ 1,505	\$ 1,200	\$ 19	Yes
Ace Hardware	June 13, 2005	-	800	153	No
Walgreens	September 22, 2005	-	1,300	263	No
Mundelein Plaza (partial)	October 17, 2005	1,805	1,436	302	No
Calumet Square	November 10, 2005	1,033	852	343	Yes
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

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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 September 30, 2006, there were no properties classified as held for sale.

On the accompanying consolidated balance sheets at September 30, 2006 and December 31, 2005, the Company has recorded \$81 and \$36, respectively of assets related to discontinued operations and \$4 and \$69, 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 nine months ended September 30, 2006, the Company has recorded income from discontinued operations of \$3,977 and \$6,383, respectively, including gains on sale of \$3,883 and \$6,017. For the three and nine months ended September 30, 2005, the Company recorded income from discontinued operations of \$446 and \$1,068, respectively, including gains on sale of \$263 and \$481, respectively.

(7) Operating Leases

Minimum lease payments under operating leases to be received in the future, excluding rental income under master lease agreements and assuming no expiring leases are renewed, are as follows:

2006	\$	31,618
2007		123,859
2008		112,396
2009		98,904
2010		85,841
Thereafter		445,694
Total	\$	898,312

Remaining lease terms range from one to fifty years. 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. Such amounts are not included in the future minimum lease payments above, but are included in tenant recoveries on the accompanying consolidated statements of operations.

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 an increase of \$606 and a decrease of \$404 for the nine months ended September 30, 2006 and 2005, respectively, of rental income for the period of occupancy for which stepped rent increases apply and \$19,928 and \$19,322 in related accounts and rents receivable as of September 30, 2006 and December 31, 2005, respectively. The Company anticipates collecting these amounts over the terms of the leases as scheduled rent payments are made.

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(8) Mortgages Payable

The Company's mortgages payable are secured by certain of its investment properties and consist of the following at September 30, 2006 and December 31, 2005:

Mortgagee	Interest Rate at September 30, 2006	Interest Rate at December 31, 2005	Maturity Date	Current Monthly Payment	Balance at September 30, 2006	Balance at December 31, 2005
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	3,857	3,878
Allstate	4.70%	4.70%	10/2010	48	12,380	12,380
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
Bear, Stearns Funding, Inc.	6.03%	6.03%	07/2007	68	13,600	13,600
Bear, Stearns Funding, Inc.	6.60%	6.60%	03/2009	44	8,000	8,000
Bear, Stearns Funding, Inc.	5.01%	5.01%	04/2010	64	15,300	15,300
Bear, Stearns Funding, Inc.	5.14%	5.14%	04/2010	48	11,125	11,125
Bear, Stearns Funding, Inc.	5.17%	5.17%	04/2010	102	23,690	23,690
Bear, Stearns Funding, Inc.	4.11%	4.11%	06/2011	133	38,730	38,730
Bear, Stearns Funding, Inc.	5.01%	5.01%	10/2010	33	7,885	7,885
Bear Stearns Funding, Inc.	5.33%	-	07/2013	71	16,000	-
Berkshire Mortgage (a)	7.79%	7.79%	10/2007	87	13,324	13,480
	7.00%	7.00%	11/2008	146	25,000	25,000

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Column Financial,
Inc

John Hancock Life Insurance (a)	7.65%	7.65%	01/2018	77	12,035	12,141
Key Bank	5.00%	5.00%	10/2010	31	7,500	7,500
LaSalle Bank N.A.	-	6.81%	-	-	-	7,833
LaSalle Bank N.A.	5.52%	5.52%	04/2010	62	13,550	13,550
LaSalle Bank N.A. (b)	4.86%	4.86%	12/2006	66	16,411	16,411
LaSalle Bank N.A.	4.88%	4.88%	11/2011	121	29,650	29,650
LaSalle Bank N.A. (c)	6.73%	-	12/2010	41	7,833	-
LaSalle Bank N.A. (c)	6.73%	5.09%	04/2010	14	2,468	2,468
LaSalle Bank N.A. (c)	6.73%	5.09%	06/2010	15	2,732	2,732
LaSalle Bank N.A. (c)	6.73%	5.09%	06/2010	13	2,255	2,255
LaSalle Bank N.A. (c)	6.73%	3.59%	04/2010	13	2,400	2,400
LaSalle Bank N.A. (b) (c)	7.13%	5.89%	12/2006	110	18,738	21,287
LaSalle Bank N.A. (c)	7.13%	5.89%	12/2007	87	14,898	14,898
LaSalle Bank N.A. (c)	6.73%	5.49%	07/2010	60	10,654	10,654
LaSalle Bank N.A. (c) (d)	4.13%	3.93%	12/2014	21	6,200	6,200
LaSalle Bank N.A. (b) (c)	7.08%	6.04%	12/2006	25	4,314	3,066
Lehman Brothers Holding, Inc.	6.36%	6.36%	10/2008	289	54,600	54,600
Metlife Insurance Company	4.71%	4.71%	12/2010	79	20,100	20,100
Midland Loan Serv. (a)	7.86%	7.86%	01/2008	31	4,667	4,729
Midland Loan Serv. (a)	5.17%	-	01/2014	79	18,355	-
Nomura Credit & Capital	5.02%	5.02%	08/2011	37	8,800	8,800
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
	3.99%	3.99%	06/2010	109	32,930	32,930

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Principal Life Insurance						
Principal Real Estate Investors	-	5.29%	12/2012	-	-	6,600
Woodmen of the World	6.75%	6.75%	06/2008	26	4,625	4,625
Mortgages Payable				\$	628,926	602,817

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- (a) These loans require payments of principal and interest monthly; all other loans listed are interest only.
- (b) Approximately \$39,463 of the Company's mortgages payable mature during 2006. 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.
- (c) Payments on these mortgages are calculated using a floating rate of interest based on LIBOR.
- (d) 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, 2006 was 4.13%. 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, 2010 and thereafter, based on debt outstanding at September 30, 2006:

2006	\$	40,209
2007		43,639
2008 (a)		246,958
2009		29,550
2010		195,841
Thereafter		214,729
Total	\$	770,926

(a)

Included in the debt maturing during 2008 is our line of credit with KeyBank N.A.

(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 \$142,000 as of September 30, 2006.

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 September 30, 2006, the Company was in compliance with these covenants.

(10) 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.

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As of September 30, 2006, 64 shares of common stock issued pursuant to employment agreements were outstanding, of which 21 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 September 30, 2006 and December 31, 2005, respectively, options to purchase 34 and 29 shares of common stock at exercise prices ranging from \$9.05 to \$10.45 per share were outstanding, respectively. These options were not included in the computation of basic or diluted EPS as the effect would be immaterial.

The basic weighted average number of common shares outstanding were 67,574 and 67,192 for the nine months ended September 30, 2006 and 2005, respectively. The diluted weighted average number of common shares outstanding were 67,643 and 67,241 for the nine months ended September 30, 2006 and 2005, respectively.

(11) 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 September 30, 2006, 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						12
2004	5	-	\$ 11.00	\$ 60	\$ -	
2004	32	15	12.93	411	193	332
2005	19	11	15.18	290	167	343
2006	8	8	16.01	129	130	246
	64	34		\$ 890	\$ 490	\$ 933

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 \$184 and \$126 were recorded in connection with the vesting of these shares, for the nine months ended September 30, 2006 and 2005, respectively.

(12) 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 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.

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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 nine months ended September 30, 2006 and 2005, 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 September 30, 2006 and 2005:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Rental income	\$ 32,599	30,919	96,498	95,084
Tenant recoveries	11,465	11,458	35,804	35,940
Property operating expenses	(4,397)	(4,843)	(14,352)	(16,966)
Real estate tax expense	(7,910)	(8,414)	(24,232)	(23,990)
Property net operating income	31,757	29,120	93,718	90,068
Other income:				
Straight-line rental income	352	294	605	(16)
Lease termination income	200	-	322	6,264

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Other property income	232	210	482	630
Other income	1,389	738	3,297	1,590
Fee income on unconsolidated joint ventures	657	540	1,747	1,463
Gain on sale of investment properties	132	223	623	68
Other expenses:				
Bad debt expense	(244)	(54)	(775)	(785)
Depreciation and amortization	(10,267)	(9,665)	(31,018)	(30,088)
General and administrative expenses	(2,428)	(2,339)	(7,374)	(6,503)
Interest expense	(11,490)	(10,070)	(32,875)	(30,980)
Minority interest	(194)	(299)	(810)	(732)
Equity in earnings of unconsolidated joint ventures	553	1,237	2,419	3,170
Income from continuing operations	\$ 10,649	9,935	30,361	34,149
Net investment properties and related assets, including discontinued operations			1,128,258	1,073,149
Non-segment assets			138,034	117,766
Total assets			1,266,292	1,190,915

INLAND REAL ESTATE CORPORATION

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(13) 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.

(14) Subsequent Events

On October 17, 2006, the Company paid a cash distribution of \$0.08 per share on the outstanding shares of its common stock to stockholders of record at the close of business on October 2, 2006.

On October 18, 2006, the Company announced that it had declared a cash distribution of \$0.08 per share on the outstanding shares of its common stock. This

distribution will be paid on November 17, 2006 to stockholders of record at the close of business on October 31, 2006.

Effective October 1, 2006, we entered into an agreement with a limited liability company formed as an insurance association captive (Captive), which is wholly owned by us and three other entities previously sponsored by Inland Real Estate Investment Corporation: Inland Retail Real Estate Trust, Inc., 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. 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. We are required to remain as a member of the Captive for a period of five years.

Effective October 10, 2006, the Company contributed Honey Creek Commons to its previously disclosed joint venture with Inland Real Estate Exchange Corporation. The Company purchased this property on January 11, 2006 for approximately \$23,800 and subsequently paid approximately \$2,600 in earnout payments. The Company is contributing the property to the joint venture at a price equal to its total purchase price less debt of approximately \$16,000.

On October 26, 2006, the Company purchased Ravinia Plaza from an unaffiliated third party for \$18,100. The acquisition was completed through the Company's joint venture with NYSTRS. The purchase price was partially funded through an assumption of debt and the remaining purchase price was funded with cash and cash equivalents. The property is located in Orland Park, Illinois and contains 101,384 square feet of leasable area. Its major tenants are Borders Books & Music, Pier 1 Imports and Panera Bread.

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"), an affiliate of The Inland Group, Inc. IARETI maintains the risk of non-payment by the borrower. The Company will receive its pro rata share of interest and loan fees.

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, 2005, as filed with the Securities and Exchange Commission on March 6, 2006, 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:

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an executive summary and our strategies and objectives;

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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;

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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;

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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

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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 September 30, 2006, we owned interests in 144 investment properties.

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. 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. 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. 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 in conjunction with our acquisition policy to determine investment capitalization strategy and we also 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 continuing 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 does not reflect the amount of capital needed to maintain our properties nor does it reflect 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:

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occupancy percentage; and

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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:

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company-wide growth in income or FFO;

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same store growth in income; and

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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:

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length of time required to fill vacancies;

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possibly releasing at rental rates lower than current market rates;

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leasing costs associated with the new lease such as leasing commissions and tenant improvement allowances; and

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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:

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

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

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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:

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

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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.

Operations:

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

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

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

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

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

Acquisitions and Dispositions

During the nine months ended September 30, 2006 and the year ended December 31, 2005, we completed the following acquisitions and dispositions:

Acquisitions during the nine months ended September 30, 2006:

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Six investment properties, totaling approximately 1,189,000 square feet, for approximately \$239,795 in the aggregate;

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

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

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

Dispositions during the nine months ended September 30, 2006:

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

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Four investment properties.

Total proceeds from these sales were approximately \$21,186.

Acquisitions during the year ended December 31, 2005:

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Six investment properties, totaling approximately 1,036,000 square feet for approximately \$143,821.

Dispositions during the year ended December 31, 2005:

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Three investment properties;

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Partial sale of approximately 70,000 square feet at certain investment properties;

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One acre of vacant land at an existing investment property; and

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Six investment properties contributed to our joint ventures with NYSTRS and Tucker Development Corporation.

Total proceeds from these sales were approximately \$69,134.

The acquisition price per square foot is higher in 2006 than it was in 2005. We believe that this does not reflect a market trend, but reflects solely the acquisition of Algonquin Commons, is a lifestyle center, that was purchased for approximately \$275 per square foot. This price is significantly higher than the amount per square foot that we typically pay for other centers, but is in line with the average price for this type of center, based on comparable property sales.

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 how we value our investment properties and determine whether assets are held for sale, recognize 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 nine months ended September 30, 2006 and 2005.

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 September 30, 2006 and December 31, 2005, 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 are actively marketing the asset for sale at a price that is reasonable in relation to its current value; and (vi) 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 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, or both. 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 statements 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 consist of cash and short-term investments. Cash and cash equivalents at September 30, 2006 and December 31, 2005 were \$18,337 and \$26,804, respectively. See our discussion of the Statements of Cash Flows for a description of our cash activity during the nine months ended September 30, 2006 and 2005. 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 operating source from which we generate cash. The table below presents lease payments to be received in the future from properties that we owned as of September 30, 2006. 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., proceeds from financings secured by our investment properties and earnings we retain that are not distributed to our stockholders. If necessary, such as for new acquisitions, we can generate cash flow by entering into financing arrangements or possible joint venture agreements with institutional investors. 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.

Minimum lease payments under operating leases to be received in the future, excluding rental income under master lease agreements and assuming no expiring leases are renewed, are as follows:

2006	\$	31,618
2007		123,859
2008		112,396
2009		98,904
2010		85,841
Thereafter		445,694
Total	\$	898,312

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As of September 30, 2006, we owned interests in 144 investment properties. Of the 144 investment properties owned, 20 are currently unencumbered by any indebtedness. We generally limit our indebtedness to approximately 50% of the original purchase price, or current market value if higher, of the investment properties in the aggregate. These 20 unencumbered investment properties were purchased for an aggregate purchase price of approximately \$108,570 and would therefore yield at least \$54,285 in additional cash from financing, using this standard. In the aggregate, all of our 144 investment properties are currently generating sufficient cash flow to pay our operating expenses, debt service requirements and distributions equal to \$0.96 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, 2010 and thereafter based on debt outstanding at September 30, 2006:

2006	\$	40,209
2007		43,639
2008 (a)		246,958
2009		29,550
2010		195,841
Thereafter		214,729
Total	\$	770,926

(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 September 30, 2006, we were in compliance with such covenants.

The following table summarizes our consolidated statements of cash flows for the nine months ended September 30, 2006 and 2005:

	2006	2005
Net cash provided by operating activities	\$ 56,005	65,573
Net cash used in investing activities	\$ (97,086)	(27,764)
Net cash provided by (used in) financing activities	\$ 32,614	(40,345)

Statements of Cash Flows

Cash provided by operating activities during the nine months ended September 30, 2006 decreased \$9,568, as compared to the nine months ended September 30, 2005, due primarily to a one-time lease termination fee in the amount of \$6,100 from Dominick's Finer Food to terminate its lease at the Highland Park location received during the nine months ended September 30, 2005. This fee is included in lease termination income on our consolidated statements of operations for the nine months ended September 30, 2005. This decrease in cash is partially offset by cash flows from operations generated by properties acquired during 2006 and 2005, subsequent to the dates of their acquisitions and operating distributions received from the operations of our joint ventures.

Net cash used in investing activities increased by \$69,322 as we acquired five investment properties during the nine months ended September 30, 2006 at a cost of \$74,623, completed \$20,193 in additions to our investment properties and generated \$21,186 of disposition proceeds, as compared to the acquisition of five investment properties during the nine months ended September 30, 2005 at a cost of \$77,694, additions to our investment properties totaling \$10,963 and generating \$63,955 of disposition proceeds. During the nine months ended September 30, 2006, we invested approximately \$17,000 for the purchase of land and one investment property in our joint ventures. Additionally, we received less cash distributions from our joint ventures and used less cash to purchase investment securities during the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005.

Net cash provided by financing activities was \$32,614 during the nine months ended September 30, 2006, as compared to net cash used in financing activities of \$40,345 during the nine months ended September 30, 2005. This increase is due primarily to an increase in proceeds received from our line of credit. This increase is offset by a decrease in loan proceeds, net of loan payoffs and the purchase of minority interest units in one of our joint ventures, at a cost of \$10,160.

Results of Operations

This section describes and compares our results of operations for the three and nine months ended September 30, 2006 and 2005. As of September 30, 2006, we owned interests in 27 single-user retail properties, 89 Neighborhood Retail Centers and 28 Community Centers. We generate almost all of our net operating income from property operations. In order to evaluate our overall portfolio, management analyzes the operating performance of properties that we have owned and operated for the same three and nine month periods during each year. A total of 122 of our investment properties satisfied these criteria during the periods presented and are referred to herein as "same store" properties. These properties comprise approximately 10.3 million square feet. A total of ten investment properties, those that have been acquired during the three and nine months ended September 30, 2006 and the year ended December 31, 2005 are presented as "other investment properties" in the table below. The "same store" investment properties represent approximately 74% of the square footage of our portfolio at September 30, 2006. This analysis allows management to monitor the operations of our existing properties for comparable periods to measure the performance of our current portfolio. Additionally, we are able to determine the effects of our new acquisitions on net income.

Net income available to common stockholders and net income available to common stockholders per weighted average common share for the three and nine months ended September 30, 2006 and 2005 are summarized below:

		Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Net income available to common stockholders	\$	14,626	10,381	36,744	35,217
Net income available to common stockholders per weighted average common share basic and diluted	\$	0.22	0.15	0.54	0.52
Weighted average number of common shares outstanding basic		67,668	67,309	67,574	67,192
Weighted average number of common shares outstanding diluted		67,737	67,358	67,643	67,241

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The following table presents the operating results, broken out between "same store" and "other investment properties," prior to straight-line rental income, interest, depreciation, amortization and bad debt expense for the three and nine months ended September 30, 2006 and 2005 along with reconciliation to income from continuing operations, calculated in accordance with U.S. GAAP.

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Rental income and tenant recoveries				
"Same store" investment properties, 122 properties, approximately 10.3 million square feet	\$ 41,467	41,042	124,863	123,475
"Other investment properties, 10 properties, approximately 799,000 square feet	2,597	1,335	7,439	7,549
Total rental income and tenant recoveries	44,064	42,377	132,302	131,024
Property operating expenses:				
"Same store" investment properties (excluding interest, depreciation, amortization and bad debt expense)	\$ 11,913	12,952	37,003	38,388
"Other investment properties" (excluding interest, depreciation, amortization and bad debt expense)	394	305	1,581	2,568
Total property operating expenses	12,307	13,257	38,584	40,956
Net operating income (rental and additional rental income less property operating expenses):				
"Same store" investment properties	\$ 29,554	28,090	87,860	85,087
"Other investment properties"	2,203	1,030	5,858	4,981
Total property net operating income	31,757	29,120	93,718	90,068
Other income:				
Straight-line rental income	352	294	605	(16)
Lease termination income	200	-	322	6,264
Other property income	232	210	482	630
Other income	1,389	738	3,297	1,590

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Fee income from unconsolidated joint ventures	657	540	1,747	1,463
Gain on sale of investment properties	132	223	623	68
Other expenses:				
Bad debt expense	(244)	(54)	(775)	(785)
Depreciation and amortization	(10,267)	(9,665)	(31,018)	(30,088)
General and administrative expenses	(2,428)	(2,339)	(7,374)	(6,503)
Interest expense	(11,490)	(10,070)	(32,875)	(30,980)
Minority interest	(194)	(299)	(810)	(732)
Equity in earnings of unconsolidated joint ventures	553	1,237	2,419	3,170
Income from continuing operations	\$ 10,649	9,935	30,361	34,149

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On a "same store" basis, (comparing the results of operations of the investment properties owned during the three and nine months ended September 30, 2006 with the results of the same investment properties during the three and nine months ended September 30, 2005), property net operating income increased by \$1,464 with total rental income and tenant recoveries increasing by \$425 and total property operating expenses decreasing by \$1,039 for the three months ended September 30, 2006. Property net operating income increased by \$2,773 with total rental income and tenant recoveries increasing by \$1,388 and total property operating expenses decreasing by \$1,385 for the nine months ended September 30, 2006.

Total rental income and tenant recoveries for the three months ended September 30, 2006 and 2005 were \$44,064 and \$42,377, respectively, and for the nine months ended September 30, 2006 and 2005, these amounts were \$132,302 and \$131,024, respectively. The primary reasons for the increase in rental income and tenant recoveries for the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005 is positive leasing spreads on our "same store" properties and income received on our "other investment properties."

Lease termination income decreased for the nine months ended September 30, 2006, as compared to the nine months ended September 30, 2005. During the nine months ended September 30, 2005, we received \$6,100 from Dominick's Finer Food to terminate its lease at the Highland Park location.

Total property operating expenses for the three months ended September 30, 2006 and 2005 were \$12,307 and 13,257, respectively, and for the nine months ended September 30, 2006 and 2005, these amounts were \$38,584 and \$40,956, respectively. For the three months ended September 30, 2006 and 2005, the decrease in expenses is due to a decrease in real estate taxes and common area maintenance expenses on our "same store" portfolio of properties. For the nine months ended September 30, 2006 and 2005, the decrease in expense is due to a decrease in expenses on our "other investment properties" portfolio of \$987. Additionally, the decrease is due to a decrease in common area and grounds maintenance expenses on our "same store" portfolio of properties. The decrease is due in most part to lower snow removal costs in 2006, as compared to 2005. This decrease is offset by an increase in real estate taxes on our "same store" portfolio.

General and administrative expenses increased \$89 and \$871, for the three and nine months ended September 30, 2006, respectively, as compared to the three and nine months ended September 30, 2005. This increase is due to an increase in salaries and other payroll related items and board of director fees. Additionally, during the nine months ended September 30, 2006, our marketing expenses have increased as we began utilizing a public relations firm.

Other income increased \$651 and \$1,707, for the three and nine months ended September 30, 2006, respectively, as compared to the three and nine months ended September 30, 2005 due to several factors.

Interest received on our mortgages receivable increased for the three and nine months ended September 30, 2006. No such income was reflected during the three and nine months ended September 30, 2005.

Dividend income received on our investment in securities increased for the three and nine months ended June 30, 2006, as compared to the three and nine months ended September 30, 2005.

Gains on the sale of our investment in securities increased for the three and nine months ended September 30, 2006, as compared to the three and nine months ended September 30, 2005.

Interest expense increased for the three and nine months ended September 30, 2006, as compared to the three and nine months ended September 30, 2005, due to several factors. We have increased our mortgages payable as well as the outstanding balance on our line of credit, resulting in higher interest expense. Additionally, the interest rates charged on our variable rate mortgages have increased during the nine months ended September 30, 2006.

Joint Ventures

Consolidated joint ventures are those where we are either the primary beneficiary of a variable interest entity or have substantial influence over or control the entity. The primary beneficiary is the party that absorbs a majority of the entity's expected residual returns and losses. 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.

Off Balance Sheet Arrangements**Unconsolidated Real Estate Joint Ventures**

Unconsolidated joint ventures are those where we are not the primary beneficiary of a variable interest entity or do not have substantial influence over or control the entity. We account for our interest in these ventures using the equity method of accounting. Pertinent information related to these ventures is summarized in the following table.

Venture Partner	Company's Ownership Percentage	September 30, 2006	December 31, 2005
Crow Holdings Managers, LLC	50.0%	1,316	1,480
New York State Teachers' Retirement System	50.0%	65,089	51,409
North American Real Estate, Inc.	45.0%	1,757	-
North American Real Estate, Inc.	45.0%	2,627	-
Investment in and advances to unconsolidated joint ventures		70,789	52,889

Our 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, we earn fees for providing property management, leasing and acquisition activities to these ventures. We recognize only our share of these fees in the accompanying consolidated statements of operations.

The operations of properties contributed by us are not recorded as discontinued operations because of our continuing involvement with these shopping centers. Differences between our 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 our equity investment recorded at its historical basis versus the fair value of certain of our contributions to the joint venture.

Such differences are amortized over depreciable lives of the joint venture's property assets. During the nine months ended September 30, 2006 and 2005, we recorded \$1,030 and \$1,053, respectively, of amortization of this basis difference.

Non-GAAP Financial Measures

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 other REITs. Due to certain unique operating characteristics of real estate companies, NAREIT 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. 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 in conjunction with our acquisition policy to determine investment capitalization strategy and we also 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. The following table reflects our FFO for the periods presented, reconciled to net income available to common stockholders for these periods:

		Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Net income	\$	14,626	10,381	36,744	35,217
Gain on sale of investment properties, net of minority interest		(4,015)	(486)	(6,405)	(549)
Gain on non-operating property		-	-	156	33
Equity in depreciation of unconsolidated ventures		2,476	1,311	6,638	2,812
Amortization on in-place lease intangibles		755	684	2,253	2,223
Amortization on leasing commissions		201	167	574	514
Depreciation, net of minority interest		9,156	8,686	27,640	27,056
Funds From Operations	\$	23,199	20,743	67,600	67,306
Net income available to common stockholders per weighted average common share					
basic and diluted	\$	0.22	0.15	0.54	0.52

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Funds From Operations, per weighted average common share				
basic and diluted	\$	0.34	0.31	1.00
Weighted average number of common shares outstanding,				
basic		67,668	67,309	67,574
Weighted average number of common shares outstanding,				
diluted		67,737	67,358	67,643

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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 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 does not reflect the amount of capital needed to maintain our properties nor does it reflect 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. The following table reflects our EBITDA for the periods presented, reconciled to income from continuing operations for these periods:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Income from continuing operations	\$ 10,649	9,935	30,361	34,149
Gain (loss) from operations	(132)	(223)	(623)	(68)
Income (loss) from discontinued operations	94	183	366	587
Interest expense	11,490	10,070	32,875	30,980
Interest expense associated with discontinued operations	-	49	44	162
Interest expense associated with unconsolidated ventures	1,755	936	4,880	2,068
Depreciation and amortization	10,267	9,665	31,018	30,088
Depreciation and amortization associated with discontinued operations	27	103	186	501
Depreciation and amortization associated with unconsolidated ventures	2,481	1,313	6,654	2,818
EBITDA	\$ 36,631	32,031	105,761	101,285
Total Interest expense	\$ 13,245	11,055	37,799	33,210
EBITDA: Interest expense coverage ratio	\$ 2.8 x	2.9 x	2.8 x	3.0 x

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The following table lists the approximate physical occupancy levels for our wholly-owned investment properties as of the end of each quarter during 2006 and 2005. N/A indicates we did not own the investment property at the end of the quarter.

Properties	Gross Leasable Area							
	(Sq Ft)	03/31/05 (%)	06/30/05 (%)	09/30/05 (%)	12/31/05 (%)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)
22 nd St. Plaza Outlot, Oakbrook Terrace, IL	10,047	65	65	99	99	99	99	99
Ameritech, Joliet, IL	4,504	100	100	100	100	100	100	100
Aurora Commons, Aurora, IL	126,908	98	98	98	98	98	97	97
Bally's Total Fitness, St Paul, MN	43,000	100	100	100	100	100	100	100
Baytowne Square, Champaign, IL	118,842	99	99	99	98	98	98	97
Bergen Plaza, Oakdale, MN	272,233	98	98	98	97	94	96	95(a)
Berwyn Plaza, Berwyn, IL	18,138	26	21	95	21	100	100	100
Big Lake Town Square, Big Lake, MN	67,858	N/A	N/A	N/A	N/A	100	100	100
Bohl Farm Marketplace, Crystal Lake, IL	97,287	100	100	100	100	100	100	100
Brunswick Market Center, Brunswick, OH	119,540	91	91	91	94	94	94	97(a)
Burnsville Crossing, Burnsville, MN	91,015	99	99	99	99	99	99	99
Butera Market, Naperville, IL	67,632	100	100	100	100	100	100	100
Byerly's Burnsville, Burnsville, MN	72,365	100	96	96	96	96	100	96
Carmax, Schaumburg, IL	93,333	100	100	100	100	100	100	100
Carmax, Tinley Park, IL	94,518	100	100	100	100	100	100	100
Caton Crossing, Plainfield, IL	83,792	93	96	96	96	96	96	96
Chestnut Court, Darien, IL	170,027	89	99	99	99	99	99	99
Circuit City, Traverse City, MI	21,337	0	0	0	0	0	0	0(a)

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Cliff Lake Centre, Eagan, MN	73,582	96	96	96	100	95	95	92
Crystal Point, Crystal Lake, IL	339,898	100	100	95	100	100	100	100
Cub Foods, Buffalo Grove, IL	56,192	100	100	100	100	100	100	100
Cub Foods, Hutchinson, MN	60,208	0	0	0	0	0	0	0(a)
Cub Foods, Indianapolis, IN	67,541	0	0	0	0	0	0	0(a)
Cub Foods, Plymouth, MN	67,510	100	100	100	100	100	100	100
Cub Foods, Arden Hills, MN	68,442	100	100	100	100	100	100	100
Deer Trace, Kohler, WI	149,881	98	98	100	100	100	100	100
Deer Trace II, Kohler, WI	24,410	100	100	100	100	100	100	100
Disney, Celebration, FL	166,131	100	100	100	100	100	100	100
Dominick's, Countryside, IL	62,344	100	100	100	100	100	100	100
Dominick's, Glendale Heights, IL	68,879	100	100	100	100	100	100	100
Dominick's, Hammond, IN	71,313	100	100	100	100	100	100	100
Dominick's, Schaumburg, IL	71,400	100	100	100	100	100	100	100

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Properties	Gross Leasable Area							
	(Sq Ft)	03/31/05 (%)	06/30/05 (%)	09/30/05 (%)	12/31/05 (%)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)
Dominick's, West Chicago, IL	78,158	0	0	0	0	0	0	0
Downers Grove Mkt, Downers Grove, IL	104,449	99	99	99	100	100	99	99
Eastgate Shopping Center, Lombard, IL	131,601	93	89	91	84	84	86	85
Eckerd Drug, Chattanooga, TN	10,908	100	100	100	100	100	100	100
Edinburgh Festival, Brooklyn Park, MN	91,536	97	97	93	99	97	97	97(a)
Elmhurst City Center, Elmhurst, IL	39,090	97	97	100	100	100	100	100
Fashion Square, Skokie, IL	84,580	96	96	96	96	92	92	100
Fashion Square II, Skokie, IL	7,151	100	100	100	100	100	100	100
Four Flags, Niles, IL	306,661	98	99	99	99	85	85	85(a)
Four Flags Annex, Niles, IL	21,425	100	100	100	100	100	100	100
Gateway Square, Hinsdale, IL	40,170	100	96	96	96	100	100	100
Goodyear, Montgomery, IL	12,903	100	100	100	100	100	100	100
Grand and Hunt Club, Gurnee, IL	21,222	100	100	100	100	100	100	100
Hartford Plaza, Naperville, IL	43,762	97	100	100	95	95	95	100
Hawthorn Village, Vernon Hills, IL	98,806	98	98	96	96	96	83	95
Hickory Creek Market, Frankfort, IL	55,831	94	89	89	89	89	87	86
High Point Center, Madison, WI	86,004	88	90	94	94	88	88	88(a)
Hollywood Video, Hammond, IN	7,488	100	100	100	100	100	100	100
Home Goods Store, Coon Rapids, MN	25,145	N/A	N/A	N/A	100	100	100	100
	19,000	100	100	100	100	100	100	100

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Homewood Plaza, Homewood, IL									
Honey Creek Commons, Terra Haute, IN	179,100	N/A	N/A	N/A	N/A	81	96	100	
Iroquois Center, Naperville, IL	140,981	65	98	100	99	98	97	95(a)	
Joliet Commons, Joliet, IL	158,922	100	100	100	100	100	100	100	
Joliet Commons Phase II, Joliet, IL	40,395	79	79	100	79	100	100	100	
Lake Park Plaza, Michigan City, IN	229,639	74	74	74	72	72	72	72(a)	
Lansing Square, Lansing, IL	233,508	89	89	99	89	89	89	71	
Mallard Crossing, Elk Grove Village, IL	82,929	100	100	100	100	100	100	100	
Mankato Heights, Mankato, MN	139,916	100	100	97	97	97	97	99	
Maple Grove Retail, Maple Grove, MN	79,130	97	97	97	97	97	97	97	
Maple Park Place, Bolingbrook, IL	227,795	97	97	97	97	97	100	100	
Maple Plaza, Downers Grove, IL	31,196	100	95	95	95	95	95	89(a)	
Medina Marketplace, Medina, OH	72,781	100	100	100	100	100	100	100	
Michael's, Coon Rapids, MN	24,240	100	100	100	100	100	100	100	
Mundelein Plaza, Mundelein, IL	16,803	100	100	96	100	100	100	100	

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Properties	Gross Leasable Area							
	(Sq Ft)	03/31/05 (%)	06/30/05 (%)	09/30/05 (%)	12/31/05 (%)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)
Nantucket Square, Schaumburg, IL	56,981	74	74	69	94	92	98	77(a)
Naper West, Naperville, IL	164,812	88	89	95	89	89	89	95
Naper West Ph II, Naperville, IL	50,000	73	73	73	73	73	73	73
Niles Shopping Center, Niles, IL	26,109	83	71	71	99	99	87	87
Northgate Center, Sheboygan, WI	73,647	N/A	95	95	95	96	96	99
Oak Forest Commons, Oak Forest, IL	108,330	32	32	32	31	98	98	99
Oak Forest Commons III, Oak Forest, IL	7,424	88	88	76	76	76	88	76(a)
Oak Lawn Town Center, Oak Lawn, IL	12,506	100	100	100	100	100	100	100
Orland Greens, Orland Park, IL	45,031	100	96	94	92	58	61	97
Orland Park Retail, Orland Park, IL	8,500	100	100	100	100	100	100	100
Park Avenue Center, Highland Park, IL	71,442	0	0	0	29	61	61	61
Park Center Plaza, Tinley Park, IL	194,599	98	98	99	97	97	97	97(a)
Park Place Plaza, St. Louis Park, MN	84,999	100	100	100	100	100	100	100
Park Square, Brooklyn Park, MN	137,109	38	46	38	50	50	82	88(a)
Park St. Claire, Schaumburg, IL	11,859	100	100	100	100	100	100	100
Petsmart, Gurnee, IL	25,692	100	100	100	100	100	100	100
Pine Tree Plaza, Janesville, WI	187,413	97	98	98	98	98	98	99
Plymouth Collection, Plymouth, MN	45,915	100	100	100	100	100	100	100
Quarry Outlot, Hodgkins, IL	9,650	100	100	100	100	100	100	100
	281,648	100	100	100	97	99	99	99

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Quarry Retail, Minneapolis, MN								
Riverdale Commons, Coon Rapids, MN	168,277	100	100	100	100	100	100	100
Riverdale Outlot, Coon Rapids, MN	6,566	100	100	100	100	100	100	100
Riverplace Center, Noblesville, IN	74,414	94	92	92	97	98	98	98
River Square Center, Naperville, IL	58,260	92	97	97	100	92	94	92(a)
Rivertree Court, Vernon Hills, IL	298,862	98	97	99	99	97	97	93(a)
Rochester Marketplace, Rochester, MN	70,213	91	91	54	54	61	100	100
Rose Naper Plaza East, Naperville, IL	11,658	100	100	100	100	100	88	88(a)
Rose Naper Plaza West, Naperville, IL	14,335	100	100	100	89	89	89	100
Rose Plaza, Elmwood Park, IL	24,204	100	100	100	100	100	100	100
Roundy s, Waupaca, WI	63,780	N/A	N/A	N/A	N/A	100	100	100
Salem Square, Countryside, IL	112,310	100	100	100	100	100	100	100
Schaumburg Plaza, Schaumburg, IL	61,485	91	91	91	91	91	91	91
Schaumburg Promenade, Schaumburg, IL	91,831	100	100	100	100	100	100	90

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Properties	Gross Leasable Area							
	(Sq Ft)	03/31/05 (%)	06/30/05 (%)	09/30/05 (%)	12/31/05 (%)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)
Shakopee Valley, Shakopee, MN	146,430	100	100	100	100	100	100	99(a)
Shannon Square Shoppes, Arden Hills, MN	29,196	100	100	100	100	100	100	96
Shingle Creek, Brooklyn Center, MN	39,456	85	85	73	73	73	77	100
Shops at Coopers Grove, Ctry Club Hills, IL	72,518	18	18	16	16	16	16	18
Shops at Grayhawk, Omaha, NB	227,350	N/A	N/A	N/A	N/A	100	98	96(a)
Shops at Orchard Place, Skokie, IL	165,141	90	90	88	98	97	97	97
Six Corners, Chicago, IL	80,650	72	97	97	97	95	95	97
Spring Hill Fashion Ctr, W. Dundee, IL	125,198	89	92	92	92	97	70	70
Springboro Plaza, Springboro, OH	154,034	100	100	100	100	100	100	100
St. James Crossing, Westmont, IL	49,994	92	90	95	98	83	82	82(a)
Staples, Freeport, IL	24,049	100	100	100	100	100	100	100
Stuart's Crossing, St. Charles, IL	85,529	98	95	95	95	95	95	95
Terramere Plaza, Arlington Heights, IL	40,965	79	75	87	77	74	74	74(a)
Townes Crossing, Oswego, IL	105,989	100	100	100	100	97	97	98
Two Rivers Plaza, Bolingbrook, IL	57,900	100	100	100	100	100	100	100
United Audio Center, Schaumburg, IL	9,988	100	100	100	100	100	100	100
University Crossing, Mishawaka, IN	136,430	99	99	100	100	100	100	100
V. Richard's Plaza, Brookfield, WI	107,952	97	96	98	98	98	93	96
Village Ten Center, Coon Rapids, MN	211,568	98	98	98	98	98	98	98
Walgreens, Decatur, IL	13,500	100	0	0	0	0	0	0(a)
Walgreens, Jennings, MO	15,120	100	100	100	100	100	100	100

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Wauconda Crossing, Wauconda, IL	90,290	N/A	N/A	N/A	N/A	N/A	N/A	99
Wauconda Shopping Ctr, Wauconda, IL	31,357	100	100	100	100	100	100	31
West River Crossing, Joliet, IL	32,452	96	100	100	100	96	96	96
Western and Howard, Chicago, IL	11,974	100	100	100	83	83	83	83
Wilson Plaza, Batavia, IL	11,160	88	88	88	88	88	88	88
Winnetka Commons, New Hope, MN	42,415	89	86	86	78	81	88	87(a)
Wisner/Milwaukee Plaza, Chicago, IL	14,677	100	100	100	100	100	100	100
Woodfield Plaza, Schaumburg, IL	177,160	94	100	97	94	97	97	97
Woodland Commons, Buffalo Grove, IL	170,398	97	98	96	97	96	96	95(a)
Woodland Heights, Streamwood, IL	120,436	90	90	93	93	97	93	93
	11,124,469							

The following table lists the approximate physical occupancy levels for our investment properties in our unconsolidated joint ventures as of the end of each quarter during 2006 and 2005. N/A indicates the relevant joint venture did not own the investment property at the end of the quarter.

Properties	Gross Leasable Area (Sq Ft)	Occupancy (%)						
		03/31/05	06/30/05	09/30/05	12/31/05	03/31/06	06/30/06	09/30/06
Algonquin Commons I, Algonquin, IL	560,433	N/A	N/A	N/A	N/A	85	96	96(a)
Chatham Ridge, Chicago, IL	175,754	94	93	93	99	99	99	69(a)
Cobblers Crossing, Elgin, IL	102,643	96	100	100	94	92	99	99
Forest Lake Marketplace, Forest Lake, MN	93,853	98	98	98	100	100	100	100
Greentree Center, Caledonia, WI	163,268	93	94	94	94	94	100	97(b)
Greentree Outlot, Caledonia, WI	6,000	100	100	100	100	100	100	100

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Hastings Marketplace, Hastings, MN	97,535	96	97	100	100	99	99	99(a)
Mapleview, Grayslake, IL	114,914	95	95	95	93	92	91	91
Marketplace at Six Corners, Chicago, IL	117,000	100	100	100	100	100	100	100
Orland Park Place, Orland Park, IL	599,664	N/A	87	86	93	87	88	93(b)
Randall Square, Geneva, IL	216,485	99	100	99	100	99	99	100
Regal Showplace, Crystal Lake, IL	94,860	96	96	96	96	96	96	96
Shoppes of Mill Creek, Palos Park, IL	102,422	100	100	100	99	99	100	100
Thatcher Woods, River Grove, IL	193,313	98	98	98	98	98	98	98
Woodfield Comm E/W, Schaumburg, IL	207,452	92	93	93	90	99	99	95(a)
	2,845,596							

(a)

We receive rent from tenants who have vacated but are still obligated under their lease terms, which results in economic occupancy ranging from 77% to 100% at September 30, 2006 for each of these centers.

(b)

We, from time to time, receive payments under master lease agreements covering spaces vacant at the time of acquisition. The payments range from one to two years from the date of acquisition of the property or until the space is leased and tenants begin paying rent. U.S. GAAP requires us to treat these payments as a reduction to the purchase price of the investment properties upon receipt of the payment, rather than as rental income. As of September 30, 2006, the Company had two investment properties, Greentree Center, located in Caledonia, Wisconsin; and Orland Park Place, located in Orland Park, Illinois subject to master lease agreements.

Subsequent Events

On October 17, 2006, we paid a cash distribution of \$0.08 per share on the outstanding shares of its common stock to stockholders of record at the close of business on October 2, 2006.

On October 18, 2006, we announced that it had declared a cash distribution of \$0.08 per share on the outstanding shares of its common stock. This distribution will be paid on November 17, 2006 to stockholders of record at the close of business on October 31, 2006.

Effective October 1, 2006, we entered into an agreement with a limited liability company formed as an insurance association captive (Captive), which is wholly owned by us and three other entities previously sponsored by Inland Real Estate Investment Corporation: Inland Retail Real Estate Trust, Inc., 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. 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. We are required to remain as a member of the Captive for a period of five years.

Effective October 10, 2006, we contributed Honey Creek Commons to our previously disclosed joint venture with Inland Real Estate Exchange Corporation. We purchased this property on January 11, 2006 for approximately \$23,800 and subsequently paid approximately \$2,600 in earnout payments. We are contributing the property to the joint venture at a price equal to our total purchase price less debt of approximately \$16,000.

On October 26, 2006, we purchased Ravinia Plaza from an unaffiliated third party for \$18,100. The acquisition was completed through our joint venture with NYSTRS. The purchase price was partially funded through an assumption

of debt and the remaining purchase price was funded with cash and cash equivalents. The property is located in Orland Park, Illinois and contains 101,384 square feet of leasable area. Its major tenants are Borders Books & Music, Pier 1 Imports and Panera Bread.

On October 26, 2006, we purchased a 25% or \$10,369 participation interest in a note receivable from Inland American Real Estate Trust, Inc. ("IARETI), an affiliate of The Inland Group, Inc. IARETI maintains the risk of non-payment by the borrower. We will receive our pro rata share of interest and loan fees.

Effective October 10, 2006, we contributed Honey Creek Commons to our previously disclosed joint venture with Inland Real Estate Exchange Corporation. We purchased this property on January 11, 2006 for approximately \$23,700 and subsequently paid approximately \$2,600 in earnout payments. We are contributing the property to the joint venture at a price equal to our total purchase price less debt of approximately \$16,000.

Item 3.**Quantitative and Qualitative Disclosures about Market Risk**

As of September 30, 2006 we had no material derivative instruments. We may enter into derivative financial instrument transactions in order to mitigate our interest rate risk on a related financial instrument. We may designate these derivative financial instruments as hedges and apply hedge accounting, as the instrument to be hedged will expose us to interest rate risk, and the derivative financial instrument will reduce that exposure. Gains or losses related to the derivative financial instrument would be deferred and amortized over the terms of the hedged instrument. If a derivative instrument terminates or is sold, the gain or loss is recognized. We will generally enter into derivative transactions that satisfy the aforementioned criteria only.

Our exposure to market risk for changes in interest rates relates to the fact that some of our long-term debt consists of variable interest rate loans. We seek to limit the impact of interest rate changes on earnings and cash flows and to lower our overall borrowing costs by closely monitoring our variable rate debt and converting such debt to fixed rates when we deem such conversion advantageous.

Our interest rate risk is monitored using a variety of techniques, including periodically evaluating fixed interest rate quotes on all variable rate debt and the costs associated with converting the debt to fixed rate debt. Also, existing fixed and variable rate loans which are scheduled to mature in the next year or two are evaluated for possible early refinancing or extension due to consideration given to current interest rates. The table below presents the principal amount of the debt maturing each year, including monthly annual amortization of principal, through December 31, 2009 and thereafter, based on debt outstanding at September 30, 2006 and weighted average interest rates for the debt maturing in each specified period.

	2006	2007	2008	2009	2010	Thereafter	Total
Fixed rate debt	17,157	28,741	104,958	29,550	167,499	208,529	556,434
Weighted average interest rate	4.86%	6.90%	6.56%	6.44%	4.77%	5.06%	-
Variable rate debt	23,052	14,898	142,000	-	28,342	6,200	214,492
Weighted average interest rate	7.12%	7.13%	6.88%	-	6.59%	4.13%	-

The table above does not reflect indebtedness incurred after September 30, 2006. Our ultimate exposure to interest rate fluctuations depends on the amount of indebtedness that bears interest at variable rates, the time at which the interest rate is adjusted, the amount of the adjustment, our ability to prepay or refinance variable rate indebtedness and hedging strategies used to reduce the impact of any increases in rates.

The fair value of mortgages payable is the amount at which the instrument could be exchanged in a current transaction between willing parties. The fair value of our mortgages is estimated to be \$214,492 for mortgages which bear interest at variable rates and \$541,606 for mortgages which bear interest at fixed rates. We estimate the fair value of our mortgages payable by discounting the future cash flows of each instrument at rates currently offered to us for similar debt instruments of comparable maturities by our lenders.

At September 30, 2006, approximately \$214,492, or 27.82%, of our debt has variable interest rates averaging 6.66%. An increase in the variable interest rates charged on debt containing variable interest rate terms, constitutes a market risk. A 0.25% annualized increase in interest rates would have increased our interest expense by approximately \$402 for the nine months ended September 30, 2006.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to the company, including our consolidated subsidiaries, is made known to the officers who certify our financial reports and to the members of senior management and the Board of Directors.

Based on management's evaluation as of September 30, 2006, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of the date of evaluation to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934, as amended) during the three months ended September 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings

Not Applicable.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

Not Applicable.

Item 6.

Exhibits

The following exhibits are filed as part of this document or incorporated herein by reference:

Item No.

Description

3.1

Fourth Articles of Amendment and Restatement of the Registrant (1)

3.2

Amended and Restated Bylaws of the Registrant (2)

10.1

Software and Consulting Shared Services Agreement, dated February 13, 2006, among Inland Computer Services, Inland Retail Real Estate Trust, Inc., Inland Western Retail Real Estate Trust, Inc., Inland Real Estate Corporation, Inland American Real Estate Trust, Inc., Inland Holdco Management LLC and Inland American Holdco Management LLC (*)

10.2

Limited Liability Company Agreement, dated as of September 5, 2006, among Inland Real Estate Corporation and Inland Real Estate Exchange Corporation (3)

10.3

First Amendment to Second Amended and Restated Credit Agreement, dated as of September 27, 2006, among Inland Real Estate Corporation and KeyBank National Association and the Lenders (*)

10.4

Operating Agreement of Oak Property and Casualty LLC, dated as of October 1, 2006, among Inland Real Estate Corporation, Inland Retail Real Estate Trust, Inc., Inland Western Retail Real Estate Trust, Inc., Inland American Real

Estate Trust, Inc. and Inland Risk and Insurance Management Services, Inc. (*)

10.5

Oak Property and Casualty LLC Membership Participation Agreement, dated as of October 1, 2006, among Inland Real Estate Corporation, Inland Retail Real Estate Trust, Inc., Inland Western Retail Real Estate Trust, Inc., Inland American Real Estate Trust, Inc. and Inland Risk and Insurance Management Services, Inc. (*)

10.6

Articles of Association of Oak Real Estate Association, dated as of October 1, 2006, among Inland Real Estate Corporation, Inland Retail Real Estate Trust, Inc., Inland Western Retail Real Estate Trust, Inc., Inland American Real Estate Trust, Inc. and Inland Risk and Insurance Management Services, Inc. (*)

10.7

Agreement for the Contribution of Limited Liability Company Interests, dated as of October 10, 2006, among Inland Real Estate Corporation, Inland Venture Corporation and IRC-IREX Venture LLC (*)

10.8

Loan Participation Agreement, dated October 26, 2006, among Inland Real Estate Corporation and IA Orlando Sand LLC (*)

10.9

Second Amendment to Second Amended and Restated Credit Agreement, dated as of November 2, 2006, among Inland Real Estate Corporation and KeyBank National Association and the Lenders (*)

31.1

Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)

31.2

Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (*)

32.1

Certification of Principal Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)

32.2

Certification of Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (*)

(1)

Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 10-Q as filed by the Registrant with the Securities and Exchange Commission on August 9, 2005 (file number 001-32185).

(2)

Incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated September 29, 2004, as filed by the Registrant with the Securities and Exchange Commission on October 1, 2004 (file number 001-32185).

(3)

Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K dated September 5, 2006, as filed by the Registrant with the Securities and Exchange Commission on September 7, 2006 (file number 001-32185).

(*)

Filed as part of this document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INLAND REAL ESTATE CORPORATION

/s/ ROBERT D. PARKS

By: Robert D. Parks
President and Chief Executive Officer (principal
executive officer)

Date: November 6, 2006

/s/ BRETT A. BROWN

By: Brett A. Brown
Chief Financial Officer (principal financial and
accounting officer)

Date: November 6, 2006

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