INLAND REAL ESTATE CORP
Form 10-Q
November 08, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

or

o 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 (Address of principal executive offices)	**60523** (Zip code)

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

N/A

(Former name, former address and former fiscal

year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding twelve months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer x Accelerated filer o Non-accelerated filer (do not check if a smaller reporting company) o Smaller reporting company o

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

As of November 8, 2010, there were 87,079,236 shares of common stock outstanding.

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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, 2010 and December 31, 2009

(In thousands, except per share data)

		September 30, 2010 (unaudited)	December 31, 2009
Assets:			
Investment properties:			
Land	$	339,848	333,433
Construction in progress		425	322
Building and improvements		978,963	921,461
		1,319,236	1,255,216
Less accumulated depreciation		317,201	308,785
Net investment properties		1,002,035	946,431
Cash and cash equivalents		9,574	6,719
Investment in securities		9,150	11,045
Accounts receivable, net		36,608	42,545
Investment in and advances to unconsolidated joint ventures		107,608	125,189
Acquired lease intangibles, net		37,436	14,438
Deferred costs, net		16,275	8,147
Other assets		13,497	10,914
Total assets	$	1,232,183	1,165,428
Liabilities:			
Accounts payable and accrued expenses	$	40,285	29,461
Acquired below market lease intangibles, net		10,721	2,319
Distributions payable		3,891	4,017
Mortgages payable		390,357	384,468
Unsecured credit facilities		270,000	185,000
Convertible notes		110,002	123,789
Other liabilities		9,895	11,183
Total liabilities		835,151	740,237
Stockholders Equity:			
Preferred stock, $0.01 par value, 6,000 Shares authorized; none issued and outstanding at September 30, 2010 and December 31, 2009, respectively			

Common stock, $0.01 par value, 500,000 Shares authorized; 86,429 and 84,560 Shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		864	846
Additional paid-in capital (net of offering costs of $64,948 and $64,472 at September 30, 2010 and December 31, 2009, respectively)		763,678	749,156
Accumulated distributions in excess of net income		(370,875)	(330,214)
Accumulated other comprehensive income		3,133	3,710
Total stockholders equity		396,800	423,498
Noncontrolling interest		232	1,693
Total equity		397,032	425,191
Total liabilities and equity	$	1,232,183	1,165,428

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

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INLAND REAL ESTATE CORPORATION

Consolidated Statements of Operations and Other Comprehensive Income

For the three and nine months ended September 30, 2010 and 2009 (unaudited)

(In thousands except per share data)

		Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Revenues:					
Rental income	$	30,273	29,409	87,298	89,197
Tenant recoveries		9,671	10,391	31,874	32,714
Other property income		559	1,325	1,527	3,131
Fee income from unconsolidated joint ventures		915	679	2,422	2,514
Total revenues		41,418	41,804	123,121	127,556
Expenses:					
Property operating expenses		6,248	6,296	22,112	21,625
Real estate tax expense		8,619	8,018	25,678	23,760
Depreciation and amortization		12,397	12,234	32,649	35,689
Provision for asset impairment			2,095	17,991	3,918
General and administrative expenses		3,258	3,240	10,485	9,689
Total expenses		30,522	31,883	108,915	94,681
Operating income		10,896	9,921	14,206	32,875
Other income		766	876	4,204	1,594
Gain on sale of investment properties					341
Gain from change in control of investment properties		5,122		5,122	
Gain on sale of joint venture interest		851	407	2,861	1,773
Gain on extinguishment of debt			882		6,931
Impairment of investment securities			(156)		(2,660)
Interest expense		(10,751)	(8,058)	(25,535)	(26,263)
Income before income tax benefit (expense) of taxable REIT subsidiary, equity in loss of unconsolidated joint ventures, discontinued operations and income attributable to noncontrolling interest		6,884	3,872	858	14,591
Income tax benefit (expense) of taxable REIT subsidiary		(313)	1,297	(934)	895
Equity in loss of unconsolidated joint ventures		(593)	(13,454)	(4,192)	(15,560)
Income (loss) from continuing operations		5,978	(8,285)	(4,268)	(74)
Income (loss) from discontinued operations		(521)	28	219	2,752
Net income (loss)		5,457	(8,257)	(4,049)	2,678
Less: Net income attributable to the noncontrolling interest		(70)	(121)	(232)	(296)
Net income (loss) available to common stockholders		5,387	(8,378)	(4,281)	2,382
Other comprehensive income (expense):					
Unrealized gain on investment securities		545	2,446	1,338	3,331
		(433)	156	(1,976)	2,660

Reversal of unrealized (gain) loss to realized (gain) loss on investment securities					
Unrealized gain on derivative instruments			100	61	310
Comprehensive income (loss)	$	5,499	(5,676)	(4,858)	8,683
Basic and diluted earnings available to common shares per weighted average common share:					
Income (loss) from continuing operations	$	0.07	(0.10)	(0.05)	
Income (loss) from discontinued operations		(0.01)			0.03
Net income (loss) available to common stockholders per weighted average common share basic and diluted	$	0.06	(0.10)	(0.05)	0.03
Weighted average number of common shares outstanding basic		85,787	84,292	85,518	76,454
Weighted average number of common shares outstanding diluted		85,876	84,356	85,601	76,512

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

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INLAND REAL ESTATE CORPORATION

Consolidated Statements of Equity

For the nine months ended September 30, 2010 (unaudited)

(Dollars in thousands, except per share data)

		Nine months ended September 30, 2010
Number of shares		
Balance at beginning of period		84,560
Shares issued from DRP		234
Issuance of shares		1,635
Balance at end of period		86,429
Common Stock		
Balance at beginning of period	$	846
Proceeds from DRP		2
Issuance of shares		16
Balance at end of period		864
Additional Paid-in capital		
Balance at beginning of period		749,156
Proceeds from DRP		1,960
Deferred stock compensation		(18)
Amortization of debt issue costs		(341)
Issuance of shares		13,397
Offering costs		(476)
Balance at end of period		763,678
Accumulated distributions in excess of net income		
Balance at beginning of period		(330,214)
Net loss available to common stockholders		(4,281)
Distributions declared		(36,380)
Balance at end of period		(370,875)
Accumulated other comprehensive income		
Balance at beginning of period		3,710
Unrealized gain on investment securities		1,338
Reversal of unrealized gain to realized gain on investment securities		(1,976)
Unrealized gain on derivative instruments		61
Balance at end of period		3,133
Noncontrolling interest		
Balance at beginning of period		1,693
Net income attributable to noncontrolling interest		232
Contributions to noncontrolling interest		25
Purchase of noncontrolling interest		(1,182)
Distributions to noncontrolling interest		(536)
Balance at end of period		232
Total equity	$	397,032

The accompanying notes are an integral part of these financial statements

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INLAND REAL ESTATE CORPORATION

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2010 and 2009 (unaudited)

(In thousands)

	Nine months ended September 30,2010	Nine months ended September 30, 2009
Cash flows from operating activities:		
Net income (loss) available to common stockholders	$ (4,281)	2,382
Adjustments to reconcile net income (loss) available to common stockholders to net cash provided by operating activities:		
Provision for asset impairment	17,991	3,918
Depreciation and amortization	33,409	36,664
Deferred stock compensation	(18)	328
Amortization on acquired above/below market leases	152	(63)
Gain on sale of investment properties	(742)	(2,349)
Income from assumption of investment property	(890)	
Gain from change in control of investment properties	(5,122)	
Loss on land condemnation	259	
Gain on extinguishment of debt		(6,931)
Realized (gain) loss on investment securities, net	(2,158)	2,128
Noncontrolling interest	232	296
Equity in loss of unconsolidated ventures	4,192	15,560
Gain on sale of joint venture interest	(2,861)	(1,773)
Straight line rent	(1,047)	562
Amortization of loan fees	1,555	2,234
Amortization of convertible note discount	1,063	1,079
Distributions from unconsolidated joint ventures	704	42
Changes in assets and liabilities:		
Restricted cash	(85)	382
Accounts receivable and other assets, net	4,172	5,304
Accounts payable and accrued expenses	6,591	5,651
Prepaid rents and other liabilities	(2,643)	(3,193)
Net cash provided by operating activities	50,473	62,221
Cash flows from investing activities:		
Restricted cash	(2,639)	(232)
Proceeds from sale of interest in joint venture, net	22,039	24,090
Sale of investment securities, net	3,414	1,318
Purchase of investment properties	(69,573)	
Additions to investment properties, net of accounts payable	(14,429)	(12,460)
Proceeds from sale of investment properties, net	44,475	7,712
Land condemnation	65	
Proceeds from change in control of investment properties	11,886	
Distributions from unconsolidated joint ventures	7,627	9,810
Investment in unconsolidated joint ventures	(3,754)	(28,335)
Mortgages receivable		(515)
Leasing fees	(2,194)	(2,013)
Net cash used in investing activities	(3,083)	(625)

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

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INLAND REAL ESTATE CORPORATION

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2010 and 2009 (unaudited)

(In thousands)

		Nine months ended September 30, 2010	Nine months ended September 30, 2009
Cash flows from financing activities:			
Proceeds from the DRP	$	1,962	5,650
Issuance of shares, net of offering costs		12,937	105,897
Purchase of noncontrolling interest, net		(1,157)	(124)
Loan proceeds		52,159	
Payoff of debt		(137,305)	(75,784)
Proceeds from term loan		10,000	
Net proceeds (repayments) under line of credit facility		75,000	(17,000)
Convertible notes		(15,483)	(31,040)
Loan fees		(5,606)	(235)
Other current liabilities			(2,532)
Distributions paid		(36,506)	(43,258)
Distributions to noncontrolling interest partners		(536)	(559)
Net cash used in financing activities		(44,535)	(58,985)
Net increase in cash and cash equivalents		2,855	2,611
Cash and cash equivalents at beginning of period		6,719	5,180
Cash and cash equivalents at end of period	$	9,574	7,791
Supplemental disclosure of cash flow information			
Cash paid for interest, net of capitalized interest	$	20,430	23,206
Supplemental Disclosure of Non-cash Investing and Financing Activities			
Non-cash contribution to investment in and advances to unconsolidated joint venture			
Investment properties	$	34,366	
Other assets		1,395	
Investment in and advances to unconsolidated joint ventures		(34,865)	
Total liabilities		(896)	
Total cash contribution	$		
Non-cash investment from change in control of investment properties			
Investment properties	$	(96,981)	
Other assets		(1,642)	
Investment in and advances to unconsolidated joint ventures		16,864	
Mortgage payable		91,035	
Other liabilities		2,610	

Cash received from change in control of investment properties	$	11,886

The accompanying notes are an integral part of these financial statements

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INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

September 30, 2010 (unaudited)

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, 2009, which are included in the Company   s 2009 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

Inland Real Estate Corporation (the   Company   ), a Maryland corporation, was formed on May 12, 1994. The Company is a publicly held real estate investment trust (REIT   ) that owns, operates and develops (directly or through its unconsolidated entities) open-air neighborhood, community and power shopping centers and single tenant retail properties located primarily in what the Company believes is the demographically strong upper Midwest markets.

All amounts in these footnotes to the consolidated financial statements are stated in thousands with the exception of per share amounts, square foot amounts, and number of properties.

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 2009 financial statements to conform to the 2010 presentation but have not changed the results of prior year.

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 the primary beneficiary of a variable interest entity. The primary beneficiary is the party that has a controlling financial interest in the VIE, which is defined by the entity having both of the following characteristics: 1) The power to direct the activities, when taken together, most significantly impact the VIE   s performance, and 2) The obligation to absorb losses and right to receive the returns from the VIE that would be significant to the VIE. The third parties   interests in these consolidated entities are reflected as noncontrolling interest in the accompanying consolidated financial statements. All inter-company balances and transactions have been eliminated in consolidation.

The consolidated results of the Company include the accounts of Inland Ryan LLC, Inland Ryan Cliff Lake LLC, IRC IREX Venture, LLC, and IRC-IREX Venture II, LLC. The Company has determined that these interests are noncontrolling interests to be included in permanent equity, separate from the Company s shareholders equity, in the consolidated balance sheets and statements of equity. Net income or loss related to these noncontrolling interests is included in net income or loss in the consolidated statements of operations.

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Notes to Consolidated Financial Statements

September 30, 2010 (unaudited)

Recent Accounting Principles

Guidance issued in June 2009, amends previously issued guidance related to consolidation. These changes eliminate certain scope exceptions previously permitted, provide additional guidance for determining whether an entity is a variable interest entity and require companies to more frequently reassess whether they must consolidate variable interest entities. The changes also replace the previously required quantitative approach to determining the primary beneficiary of a variable interest entity with a requirement for an enterprise to perform a qualitative analysis to determine whether the enterprise s variable interest or interests give it a controlling financial interest in a variable interest entity. Changes are effective as of the beginning of the first annual reporting period that begins after November 15, 2009, for interim periods within that first annual reporting period and for interim and annual reporting periods thereafter. The adoption of this new guidance did not have an impact on the Company s consolidated financial statements as there are no changes to which entities are consolidated.

(2) Investment Securities

At September 30, 2010 and December 31, 2009, investment in securities includes $8,150 and $10,045, respectively, of perpetual preferred securities and common securities classified as available-for-sale securities, which are recorded at fair value and $1,000 in each period of preferred securities not classified as available-for-sale securities and therefore, recorded at cost. The Company determined that these securities should be held at cost because the fair value is not readily determinable and there is no active market for these securities.

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. The Company has recorded a net unrealized gain of $3,133 and $3,771 on the accompanying consolidated balances sheets as of September 30, 2010 and December 31, 2009, respectively. Realized gains and losses from the sale of available-for-sale securities are determined on a specific identification basis. Sales of investment securities available-for-sale during the three and nine months ended September 30, 2010 resulted in gains on sale of $477 and $2,158, respectively, which are included in other income in the accompanying consolidated statements of operations and other comprehensive income. Sales of investment securities available-for-sale during the three and nine months ended September 30, 2009 resulted in gains on sale of $532 for each period. Dividend income is recognized when received.

The Company evaluates its investments for impairment quarterly. The Company s policy for assessing near term recoverability of its available for sale securities is to record a charge against net earnings when the Company determines that a decline in the fair value of a security drops below the cost basis and it believes it to be other than temporary. During the three and nine months ended September 30, 2009, the Company recognized impairment charges of $156 and $2,660, respectively, with respect to its investment in perpetual preferred and common securities in the accompanying consolidated financial statements. Due to various factors, including the extent and duration during which the market price had been below cost, the Company concluded the decline in value was other than temporary. No such losses were required or recorded for the three and nine months ended September 30, 2010.

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, 2010 were as follows:

	Less than 12 months		12 months or longer		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
REIT Stock	$ 62	(5)			62	(5)
Non-REIT Stock	$ 34	(21)			34	(21)

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INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

September 30, 2010 (unaudited)

(3) Unconsolidated Joint Ventures

Unconsolidated joint ventures are those where the Company is not the primary beneficiary of a variable interest entity. The Company accounts for its interest in these ventures using the equity method of accounting. The Company s profit/loss allocation percentage and related investment in each joint venture is summarized in the following table.

Joint Venture Entity	Company s Profit/Loss Allocation Percentage at September 30, 2010		Investment in and advances to unconsolidated joint ventures at September 30, 2010	Investment in and advances to unconsolidated joint ventures at December 31, 2009
IN Retail Fund LLC	50%	$	27,501	48,779
NARE/Inland North Aurora I, II & III (a)	45%		13,889	23,867
Oak Property and Casualty	25%		1,310	1,128
TMK/Inland Aurora Venture LLC (a)	40%		2,918	5,589
PDG/Tuscany Village Venture LLC (a)	15%		3	6,767
PTI Ft Wayne, LLC, PTI Boise LLC, PTI Westfield, LLC	85%		17,697	16,416
TDC Inland Lakemoor LLC (a)	48%		21	2,851
INP Retail LP	55%		34,487	
IRC/IREX Venture LLC	(b)		5,663	19,792
IRC/IREX Venture II LLC	(b)		4,119	
Investment in and advances to joint ventures		$	107,608	125,189

(a) The profit/loss allocation percentage is allocated after the calculation of the Company s preferred return.

(b) The Company s profit/loss allocation percentage varies based on the amount of interest it holds in the properties that are in the selling process.

The unconsolidated joint ventures had total outstanding debt in the amount of $375,644 (total debt, not the Company s pro rata share) at September 30, 2010 that matures as follows:

Joint Venture Entity		2010 (a)	2011 (a)	2012	2013	2014	Thereafter	Total
IN Retail Fund LLC	$		55,555	47,300	34,013	11,868	22,000	170,736

NARE/Inland North Aurora I (b)			17,469					17,469
NARE/Inland North Aurora II			3,550					3,550
NARE/Inland North Aurora III			13,819					13,819
PDG/Tuscany Village Venture (c)		9,052						9,052
PTI Ft. Wayne LLC (d)		313	14,800					15,113
PTI Boise LLC (e)				2,700				2,700
PTI Westfield LLC (f)		7,500						7,500
TDC Inland Lakemoor LLC (g)		22,105						22,105
INP Retail LP							14,300	14,300
IRC/IREX Venture LLC					90,300			90,300
IRC/IREX Venture II LLC							9,000	9,000
Total unconsolidated joint venture debt	$	38,970	105,193	50,000	124,313	11,868	45,300	375,644

(a) The joint ventures will soon be in discussions with various lenders to extend or restructure this joint venture debt although there is no assurance that the Company, or its joint venture partners, will be able to restructure this debt on terms and conditions the Company find acceptable, if at all.

(b) The Company has guaranteed approximately $1,100 of the 2011 maturity.

(c) This loan matured in September 2009. The Company is not a party to this loan agreement and therefore has not guaranteed any portion of this loan. The joint venture is engaged in discussions with the lender to extend this debt. The lender has not taken any negative actions with regards to this matured loan.

(d) This loan matures in June 2011. The Company has guaranteed approximately $7,600 of this outstanding loan.

(e) This loan matures in October 2012. In September 2009, the Company purchased the mortgage from the lender at a discount and became a lender to the joint venture.

(f) This loan matures in December 2010. The Company has guaranteed approximately $1,400 of this outstanding loan.

(g) This loan matures in November 2010. The Company has guaranteed approximately $5,400 of this outstanding loan. The joint venture is currently engaged in discussions with the lender to extend this debt.

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INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

September 30, 2010 (unaudited)

The Company has guaranteed approximately $15,500 of unconsolidated joint venture debt as of September 30, 2010. These guarantees are in effect for the entire term of each respective loan as set forth in the loan documents. The Company would be required to make payments related to these guarantees upon the default of any of the provisions in the loan documents. The Company is required to estimate the fair value of these guarantees and record a corresponding liability. The Company has determined that the fair value of such guarantees are immaterial as of September 30, 2010 and have not recorded a liability related to these guarantees on the accompanying consolidated balance sheets.

The Company s proportionate share of the earnings or losses related to these ventures is reflected as equity in loss of unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. Additionally, the Company earns fees for providing property management, leasing and acquisition services to these ventures. The Company recognizes fee income equal to the Company s joint venture partner s share of the expense or commission in the accompanying consolidated statements of operations and other comprehensive income. During the three and nine months ended September 30, 2010, the Company earned $915 and $2,422, respectively in fee income from its unconsolidated joint ventures, as compared to $679 and $2,514 for the three and nine months ended September 30, 2009, respectively. This fee income fluctuated due in most part to acquisition fees related to sales on the properties sold through the Company s joint venture with IREX. Acquisition fees are earned on the IREX joint venture properties as the interests are sold to the investors. These fees are reflected on the accompanying consolidated statements of operations and other comprehensive income as fee income from unconsolidated joint ventures.

The operations of properties contributed to the joint ventures by the Company are not recorded as discontinued operations because of the Company s continuing involvement with these shopping centers. Differences between the Company s investment in the joint ventures and the amount of the underlying equity in net assets of the joint ventures are due to basis differences resulting from the Company s equity investment recorded at its historical basis versus the fair value of certain of the Company s contributions to the joint venture. Such differences are amortized over depreciable lives of the joint venture s property assets. During the nine months ended September 30, 2010 and 2009, the Company recorded $1,183 and $1,075, respectively, of amortization of this basis difference.

During the nine months ended September 30, 2010, the Company s joint venture with IREX acquired four investment properties. The joint venture is in various stages of selling properties acquired in 2008. During the nine months ended September 30, 2010, the Company earned acquisition and management fees from this venture which are included in fee income from unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. The Company and its joint venture partner have agreed to temporarily waive the management fees that may be charged on the Bank of America properties. It is the Company s intention that these fees will be reinstated gradually over the next two to three years. Additionally, in conjunction with the sales, the Company recorded gains of approximately $851 and $2,861, for the three and nine months ended September 30, 2010, respectively, as compared to $407 and $1,773 for the three and nine months ended September 30, 2009. These gains are included in gain on sale of joint venture interests on the accompanying consolidated statements of operations and other comprehensive income.

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INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

September 30, 2010 (unaudited)

On June 7, 2010, the Company formed a joint venture with PGGM, a leading Dutch pension fund administrator and asset manager. In conjunction with the formation, the joint venture established two separate REIT entities to hold title to the properties included in the joint venture. This joint venture may acquire up to $270,000 of grocery-anchored and community retail centers in Midwestern U.S. markets. During the nine months ended September 30, 2010, PGGM contributed $20,000 of equity and the Company completed its initial contribution of four retail centers with an approximate gross value of $45,000 to the joint venture. The equity contributed by PGGM will be held in the joint venture and used as the Company s equity contribution towards future acquisitions. After the initial investment, the joint venture agreement provides that, subject to the conditions described in the governing joint venture documents being satisfied, the Company will contribute additional assets from its consolidated portfolio and PGGM will contribute additional equity to the venture as new acquisitions are identified. During the nine months ended September 30, 2010, the Company sold The Point at Clark, which the Company had purchased earlier in 2010, to the PGGM joint venture. In conjunction with this sale, PGGM contributed approximately $6,500 to the joint venture, and the Company used approximately $8,000 of the proceeds held by joint venture from the initial contributions. Total proceeds of $14,500 were paid by the joint venture to the Company as reimbursement of its original purchase price. Under the terms of the agreement, PGGM s potential equity contribution to the venture may total up to $130,000. As of September 30, 2010, PGGM s remaining commitment is approximately $103,000. The joint venture expects to acquire additional assets using leverage consistent with the Company s existing business plan during the next two years. PGGM owns a forty-five percent equity ownership interest and the Company owns a fifty-five percent interest in the venture. The Company is the managing partner of the venture and earns fees for asset management, property management, leasing and other services provided to the venture.

During the nine months ended September 30, 2010, the Company took control of Algonquin Commons, a property previously held through its joint venture with NYSTRS. Prior to the change in control, the Company accounted for its investment in this property as an unconsolidated entity.

The Company s control of Algonquin Commons was accounted for as a business combination, which required the Company to record the assets and liabilities of Algonquin Commons at fair value. The Company valued the property using a discounted cash flow model, including discount rates and capitalization rates on the expected future cash flows of the property. The Company estimated fair value of the debt by discounting the future cash flows of the instrument at a rate currently offered for similar debt instruments. NYSTRS was required to pay the Company approximately $12,000 and in return, the Company is required to indemnify NYSTRS if they were ever required to perform under their guarantee. This consolidation resulted in a gain to the Company of $5,122 which is reflected as gain from change in control of investment properties on the accompanying consolidated statements of operations and other comprehensive income.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

Investment properties	$	102,103
Other assets		1,642
Total assets acquired	$	103,745
Mortgages payable		91,035
Other liabilities		2,610
Net assets acquired	$	10,100

The following table summarizes the investment in Algonquin.

Investments in and advances to unconsolidated joint ventures at June 30, 2010	$	16,864
Gain from change in control of investment properties		5,122
Cash received		(11,886)
Net assets acquired at July 1, 2010	$	10,100

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When circumstances indicate there may have been a loss in value of an equity method investment, the Company evaluates the investment for impairment by estimating its ability to recover its investments from future expected cash flows. If the Company determines the loss in value is other than temporary, the Company will recognize an impairment charge to reflect the investment at fair value. The total impairment loss is recorded at the joint venture level. The Company s pro rata share of the loss is included in equity in loss of unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. During the nine months ended September 30, 2010 and 2009, the following impairment losses are included in equity in loss of unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income.

	Nine months ended September 30, 2010		Nine months ended September 30, 2009	
Joint Venture Entity	**Total impairment**	**Company s pro rata share**	**Total impairment**	**Company s pro rata share**
NARE/Inland North Aurora I	$ (5,550)	(2,498)		
NARE/Inland North Aurora II			(3,181)	(1,431)
NARE/Inland North Aurora III			(4,276)	(1,924)
PTI Westfield LLC			(5,713)	(4,856)
TDC Inland Lakemoor LLC			(11,299)	(5,424)
	$ (5,550)	(2,498)	(24,469)	(13,635)

In addition to the impairment charges above, during the nine months ended September 30, 2009, the Company recorded $2,095 in impairment loss related to basis differences recorded for interest costs incurred for each project that could have been avoided. This loss is included in provision for asset impairment on the accompanying consolidated statements of operations and other comprehensive income. No impairment charges related to basis differences were required during the nine months ended September 30, 2010.

Additionally, during the nine months ended September 30, 2010, the Company determined that, based on the fair value of the related properties, portions of its investments in certain properties were unrecoverable and that the entire investment in PDG/Inland Tuscany Village Venture LLC and TDC Inland Lakemoor LLC were not recoverable. Therefore, the following impairment losses were recorded to reflect the investments at fair value and are included in provision for asset impairment for the nine months ended September 30, 2010 on the accompanying consolidated statements of operations and other comprehensive income. No impairment adjustments were required or recorded during the nine months ended September 30, 2009.

Joint Venture Entity	**Nine months ended September 30, 2010**
NARE/Inland North Aurora I	$ 3,933
NARE/Inland North Aurora II	1,500
NARE/Inland North Aurora III	2,584

PDG/Tuscany Village Venture LLC		6,807
TDC Inland Lakemoor LLC		3,167
	$	17,991

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

Balance Sheet:		**September 30, 2010**	**December 31, 2009**
Assets:			
Investment in real estate, net	$	658,262	710,388
Other assets		82,353	62,647