

INLAND REAL ESTATE CORP
Form 10-K
February 29, 2008

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

FORM 10-K

Q Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For The Fiscal Year Ended December 31, 2007

or

q Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

**Commission File Number 001-32185
INLAND REAL ESTATE CORPORATION**
(Exact name of registrant as specified in its charter)

Maryland
(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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class:	Name of each exchange on which registered:
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

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Title of each class:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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 Smaller reporting company

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 June 30, 2007, the aggregate market value of the shares of common stock held by non-affiliates of the registrant was \$992,212,437.

As of February 27, 2008 there were 65,811,157 shares of common stock outstanding.

Documents Incorporated by Reference: Portions of the registrant's proxy statement for the annual stockholders meeting to be held in 2008 are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14.

INLAND REAL ESTATE CORPORATION
(a Maryland corporation)

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PART I

(In this Part I disclosure, all amounts are presented in thousands, except per share data and square footage amounts)

Item 1. Business

General

Inland Real Estate Corporation, a Maryland Corporation, was formed on May 12, 1994. We, collectively with our consolidated entities, are a publicly held real estate investment trust ("REIT") that acquires, owns, operates and develops (directly or through our consolidated entities) open-air neighborhood, community, power and lifestyle shopping centers and single-tenant retail properties located primarily in demographically strong upper Midwest markets.

More than sixty percent of Company-owned gross leasable area ("GLA") is located in the Chicago Metropolitan Statistical Area ("MSA"), with our second largest market concentration being in the Minneapolis-St. Paul MSA. Our retail properties primarily provide "everyday" goods and services to consumers, with forty-five percent of the portfolio anchored by grocery stores. The properties in our portfolio generate steady cash flows from rents and related revenues for the Company. The primary drivers of our internal income growth are rental rate increases over expiring rates on new and renewal leases and cost savings from operational efficiencies. As of December 31, 2007, we owned interests in 152 investment properties, including those owned through our unconsolidated joint ventures, comprised of:

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Seventy neighborhood retail centers totaling approximately 4,397,000 gross leasable square feet;

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Twenty community centers totaling approximately 3,007,000 gross leasable square feet;

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Twenty-eight power centers totaling approximately 4,622,000 gross leasable square feet;

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One lifestyle center totaling approximately 562,000 gross leasable square feet; and

Thirty-three single-user properties totaling approximately 2,139,000 gross leasable square feet.

We 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 ended December 31, 1995. So long as we qualify for treatment as a REIT, we are generally not 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.

We are now permitted to participate in certain activities from which we were previously precluded in order to maintain our qualifications as a REIT, so long as these activities are conducted in entities which elect to be treated as taxable REIT subsidiaries (TRS) under the Code. In 2005, we formed a TRS, Inland Venture Corporation (IVC), to be a partner in many of our unconsolidated joint ventures. As such, we are subject to federal and state income taxes on the income we receive from the activities of IVC. The provision for income tax relates to the taxable income of IVC and represents an effective federal and state income tax rate of 38%.

We compete for tenants on the basis of rental rates, operating expenses and location with similar types of properties located in the vicinity of our investment properties. In addition, our tenants compete against other forms of retailing such as catalog companies and e-commerce websites that offer similar retail products. We do not own any real property investments located outside of the United States. We compete with numerous other properties in attracting tenants. Additionally, we compete with other REITs and real estate operating companies when seeking to acquire new investment properties. There are several factors that could limit our ability to acquire additional investment properties. We assess and measure operating results on an individual property basis. Since all of our 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. See footnote 15 to the accompanying consolidated financial statements for a discussion on our segment reporting. As of December 31, 2007, we employed a total of eighty-eight people, none of whom are represented by a union.

Management has implemented external growth initiatives that utilize our financing, acquisition, leasing and property management expertise to drive incremental income growth. Our external growth initiatives consist of three types of unconsolidated joint venture activities: a joint venture with Inland Real Estate Exchange Corporation ("IREX") through which we source, acquire and manage properties for 1031 tenant-in-common ("TIC") buyers; an asset-based joint venture with New York State Teachers Retirement System ("NYSTRS") through which we source, acquire and manage Midwest retail properties; and development joint ventures with established developers to build, lease and operate shopping centers primarily within our core Midwest markets.

The Company's asset-based venture with NYSTRS is an investment vehicle which enables us to increase our fee income via the acquisition, leasing, and property management services we provide through the venture. The NYSTRS joint venture was formed in 2004 to acquire up to \$400 million of stabilized retail assets in Midwest markets. As of December 31, 2007, \$320 million has been invested in Midwest retail assets and we continue to search the marketplace for opportunities that meet the return requirements of the venture.

Our development joint ventures with five independent partners enable us to leverage the unique strengths of each development team, while diversifying our risk. Our development partners typically identify opportunities, assemble and complete the entitlement process for the land, and gauge national "big box" retailer interest in the location before they bring the project to us for right of first refusal. We contribute financing, leasing, and property management expertise to enhance productivity of the new developments and typically earn a preferred return on our portion of invested capital. The Company believes that our development joint venture strategy enables us to maximize our capital resources, potentially generates higher returns than we can achieve by buying stabilized properties at current market cap rates, and provides opportunities to add finished assets at below-market rates or sell them for a profit. During the year ended December 31, 2007, we purchased 292 acres of vacant land through our development joint ventures and sold vacant land parcels to retailers through these joint ventures.

The Company's joint venture with IREX, formed in 2006, leverages our respective skill sets to access the growth potential of the 1031 TIC market and increase our fee income. We source properties and provide financing, acquisition and asset management expertise through the venture, while IREX provides syndication expertise and access to a large broker/dealer network which markets the properties to TIC buyers. We believe our IREX joint venture enables us to effectively manage our resources due to the revolving nature of the investment capital. The capital we deploy for properties sourced for the venture is generally recovered within six months through the sale of TIC interests to 1031 Exchange investors and can be recycled into other investment opportunities. The Company believes that the IREX joint venture is a capital-efficient means to generate additional acquisition fee income and a long-term management fee income stream for managing properties for TIC owners.

During the year ended December 31, 2007, we acquired a total of nine investment properties on behalf of our joint venture with IREX, comprising approximately 982,000 square feet with a purchase price of approximately \$150,000. The joint venture is in various stages of selling these properties to TIC investors. During the year ended December 31, 2007, we earned acquisition and management fees for these properties which are included in fee income from unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. Additionally, in conjunction with the sales to the TIC investors, we recorded approximately \$697 in gains, which are included in gain on sale of joint venture interests on the accompanying consolidated statements of operations and other comprehensive income.

Conflicts of Interest Policies

Our governing documents require a majority of our directors to be "independent," as defined by the New York Stock Exchange. Further, any transactions between The Inland Group, Inc. or its affiliates, and us must be approved by a majority of our independent directors. Two of our directors, Messrs. Goodwin and Parks, are directors of The Inland Group, Inc.

Environmental Matters

We review and monitor compliance with federal, state and local provisions, which have been enacted or adopted regulating the discharge of material into the environment, or otherwise relating to the protection of the environment. For the year ended December 31, 2007, we did not incur any material capital expenditures for environmental control facilities nor do we anticipate incurring material amounts during the year ending December 31, 2008.

We believe that all of our investment properties comply in all material respects with all federal, state and local environmental laws, ordinances and regulations regarding hazardous or toxic substances. The environmental condition of our investment properties may be adversely affected by our tenants, by conditions of near-by properties or by unrelated third parties. All of our investment properties have been subjected to Phase I or similar environmental audits at the time they were acquired. These audits, performed by independent consultants, generally involve a review of records and visual inspection of the property. These audits do not include soil sampling or ground water analysis. These audits have not revealed, nor are we aware of, any environmental liability that we believe will have a material adverse effect on our operations. These audits may not, however, reveal all potential environmental liabilities. Additionally, on an annual basis, we engage third party environmental specialists to complete site inspections on certain investment properties, namely those occupied by dry cleaners, oil change facilities and print shops, to ensure that the environmental condition of the respective property has not changed.

Access to Company Information

We make available, free of charge, through our website, and by responding to requests addressed to our director of investor relations, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports. These reports are available as soon as reasonably practical after such material is electronically filed or furnished to the SEC. Our website address is www.inlandrealestate.com. The information contained on our website, or on other websites linked to our website, is not part of this document.

Executive Officers

The following sets forth certain information with regard to our executive officers as of January 1, 2008:

Robert D. Parks, 64. President and Chief Executive Officer; Director. Mr. Parks has been a director since 1994 and served as chairman of our board until May 2004. Mr. Parks served as our president from 1994 to June 2000, reassuming the office of president and chief executive officer in March 2001.

Mark E. Zalatoris, 50. Executive vice president, chief operating officer and treasurer. Mr. Zalatoris became a full-time employee in July 2000 and was promoted to executive vice president and chief operating officer in April 2004.

Brett A. Brown, 43. Chief financial officer and vice president. Mr. Brown joined us in May 2004.

Beth Sprecher Brooks, 53. Corporate secretary and general counsel. Ms. Brooks joined us in November 2002 and became our general counsel in 2006.

William W. Anderson, 49. Vice president acquisitions and sales. Mr. Anderson joined us in July 2000.

D. Scott Carr, 42. President of Inland Commercial Property Management, Inc. ("ICPM"). Mr. Carr has been employed by ICPM since 1994. We acquired ICPM in July 2000.

Kristi A. Rankin, 42. Senior Vice President of ICPM. Ms. Rankin has been employed by ICPM since 1994. We acquired ICPM in July 2000.

Certifications

The Company has filed with the SEC the chief executive officer and chief financial officer certifications required pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, which are attached as Exhibits 31.1 and 31.2 to this Annual Report on Form 10-K. In addition, the Company has filed the certification of our chief executive officer with the New York Stock Exchange ("NYSE") for 2007 as required pursuant to Section 303A.12(a) of the NYSE Listed Company Manual. Our chief executive officer certified that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards as of the date of the certification.

Item 1A. Risk Factors

Set forth below are the risk factors that we believe are material to our investors. This section contains forward-looking statements. You should refer to the explanation of the qualifications and limitations on forward-looking statements on page 33.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry. Our economic performance and the value of our real estate assets, and consequently the value of your shares, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow and ability to pay distributions to you will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

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downturns in the national, regional and local economic climate;

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competition from other retail properties;

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local real estate market conditions, such as oversupply or reduction in demand for retail properties;

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changes in interest rates and availability of financing;

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vacancies, changes in market rental rates and the need to periodically repair, renovate and re-lease space;

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increased operating costs, including, but not limited to, insurance expense, utilities, real estate taxes, state and local taxes, and heightened security costs;

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civil disturbances, natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from properties; and

declines in the financial condition of our tenants and our ability to collect rents from our tenants.

We compete with numerous other parties or entities for real estate and tenants. We compete with numerous other persons or entities seeking to buy real estate assets, or to attract tenants to properties we already own, including REITs or other real estate operating companies. These persons or entities may have greater experience and financial strength. There is no assurance that we will be able to acquire additional real estate assets or attract tenants on favorable terms, if at all. For example, our competitors may be willing to purchase properties at prices that result in yields below what we believe is our minimum required yield or may offer space at properties that compete with ours at rental rates below our existing rates, causing us to lose existing or potential tenants and pressuring us to reduce our rental rates to retain existing tenants or convince new tenants to lease space at our properties. All of these factors could adversely affect our results of operations, financial condition and ability to pay distributions.

We face risks associated with property acquisitions. We have and intend to continue to acquire properties and portfolios of properties, including large properties that could increase our size and result in alterations to our capital structure. Our acquisition activities and their success are subject to the following risks:

we may be unable to obtain financing for acquisitions on favorable terms or at all;

acquired properties may fail to perform as expected;

the actual costs of repositioning and redeveloping acquired properties may be higher than our estimates;

acquired properties may be located in new markets where we may face risks associated with a lack of market knowledge or understanding of the local economy, lack of business relationships in the area and unfamiliarity with local governmental and permitting procedures; and

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we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations, and thus could have an adverse effect on our results of operations and financial condition.

Acquired properties may expose us to unknown liability. We may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we might have to pay substantial sums to settle it, which could adversely affect our results from operations and cash flow. Unknown liabilities with respect to acquired properties might include:

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liabilities for clean-up of undisclosed environmental contamination;

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claims by tenants, vendors or other persons against the former owners of the properties;

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liabilities incurred in the ordinary course of business; and

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claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

Leases on approximately 7% of rentable square feet under management expire during 2008. As leases expire, we may not be able to renew or re-lease space at rates comparable to, or better than, the rates contained in the expiring leases. Leases on approximately 1,051,000 square feet, or approximately 7% of total rentable square feet of 14,727,167, will expire prior to December 31, 2008. If we fail to renew or re-lease space at rates that are at least comparable to the rates on expiring leases, revenues at the impacted properties will decline. Further, we may have to spend significant sums of money to renew or re-lease space covered by expiring leases.

Tenants may fail to pay their rent, declare bankruptcy or seek to restructure their leases. We derive substantially all of our revenue from leasing space at our investment properties. Thus, our results may be negatively affected by the failure of tenants to pay rent when due. We may experience substantial delays and expense enforcing rights against tenants who do not pay their rent or who seek the protection of the bankruptcy laws. Even if a tenant did not seek the protection of the bankruptcy laws, the tenant may from time to time experience a downturn in its business which may weaken its financial condition and its ability to make rental payments when due, leading these tenants to seek revisions to their leases.

We may not be able to quickly vary our portfolio. Investments in real estate are relatively illiquid. Except in certain circumstances, in order to continue qualifying as a REIT, we are subject to rules and regulations that limit the ability to sell investment properties within a short period of time.

Some potential losses are not covered by insurance. We continue to monitor the state of the insurance market in general, and the scope and costs of coverage for acts of terrorism in particular, but we cannot anticipate what coverage will be available on commercially reasonable terms in future policy years. There are other types of losses, such as from wars, acts of nuclear, biological or chemical terrorism or the presence of mold at our properties, for which we cannot obtain insurance at all or at a reasonable cost. With respect to these losses and losses from acts of terrorism, earthquakes or other catastrophic events, if we experience a loss that is uninsured or that exceeds policy limits, we could lose the capital invested in the damaged properties, as well as the anticipated future revenues from those properties. Depending on the specific circumstances of each affected property, it is possible that we could be liable for mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect our business, financial condition and results of operations.

Potential liability for environmental contamination could result in substantial costs. Under federal, state and local environmental laws, ordinances and regulations, we may be required to investigate and clean up the effects of releases of hazardous or toxic substances or petroleum products at our properties simply because of our current or past ownership or operation of our real estate. If unidentified environmental problems arise, we may have to make substantial payments which could adversely affect our cash flow and our ability to make distributions to our stockholders because:

as owner or operator we may have to pay for property damage and for investigation and clean up costs incurred in connection with the contamination;

the law typically imposes clean up responsibility and liability regardless of whether the owner or operator knew of or caused the contamination;

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even if more than one person may be responsible for the contamination, each person who shares legal liability under the environmental laws may be held responsible for all of the clean up costs; and

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governmental entities and third parties may sue the owner or operator of a contaminated site for damages and costs.

These costs could be substantial and in extreme cases could exceed the value of the contaminated property. The presence of hazardous or toxic substances or petroleum products or the failure to properly remediate contamination may materially and adversely affect our ability to borrow against, sell or rent an affected property.

In addition, applicable environmental laws create liens on contaminated sites in favor of the government for damages and costs it incurs in connection with a contamination. Changes in laws increasing the potential liability for environmental conditions existing at our properties, or increasing the restrictions on the handling, storage or discharge of hazardous or toxic substances or petroleum products or other actions may result in significant unanticipated expenditures.

Environmental laws also govern the presence, maintenance and removal of asbestos. These laws require that owners or operators of buildings containing asbestos:

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properly manage and maintain the asbestos;

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notify and train those who may come into contact with asbestos; and

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undertake special precautions, including removal or other abatement, if asbestos would be disturbed during renovation or demolition of a building.

These laws may impose fines and penalties on building owners or operators who fail to comply with these requirements and may allow third parties to seek recovery from owners or operators for personal injury associated with exposure to asbestos fibers.

Some of our properties are located in urban, industrial and previously developed areas where fill or current or historic industrial uses of the areas have caused site contamination. It is our policy to retain independent environmental consultants to conduct Phase I environmental site assessments and asbestos surveys for each property we seek to acquire. These assessments generally include a visual inspection of the properties and the surrounding areas, an examination of current and historical uses of the properties and the surrounding areas and a review of relevant state, federal and historical documents, but do not involve invasive techniques such as soil and ground water sampling.

Where appropriate, on a property-by-property basis, our practice is to have these consultants conduct additional testing, including sampling for asbestos, for lead in drinking water, for soil contamination where underground storage tanks are or were located or where other past site usage create a potential environmental problem, and for contamination in groundwater. Even though these environmental assessments are conducted, there is still the risk that:

the environmental assessments and updates did not identify all potential environmental liabilities;

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a prior owner created a material environmental condition that is not known to us or the independent consultants preparing the assessments;

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new environmental liabilities have developed since the environmental assessments were conducted; and

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future uses or conditions such as changes in applicable environmental laws and regulations could result in environmental liability for us.

Inquiries about indoor air quality may necessitate special investigation and, depending on the results, remediation beyond our regular indoor air quality testing and maintenance programs. Indoor air quality issues can stem from inadequate ventilation, chemical contaminants from indoor or outdoor sources, and biological contaminants such as molds, pollen, viruses and bacteria. Indoor exposure to chemical or biological contaminants above certain levels can be alleged to be connected to allergic reactions or other health effects and symptoms in susceptible individuals. If these conditions were to occur at one of our properties, we may need to undertake a targeted remediation program, including without limitation, steps to increase indoor ventilation rates and eliminate sources of contaminants. These remediation programs could be costly, necessitate the temporary relocation of some or all of the property's tenants or require rehabilitation of the affected property.

Our objectives may conflict with those of our joint venture partners. We own certain of our investment properties, through joint ventures with third parties. In some cases, we control the joint venture and in some cases we are a minority partner. Investments in joint ventures involve risks that are not otherwise present with properties which we own entirely. For example, a joint venture partner may file for bankruptcy protection or may have economic or business interests or goals which are inconsistent with our goals or interests. Further, although we may own a controlling interest in a joint venture and may have authority over major decisions such as the sale or refinancing of investment properties, we may have fiduciary duties to the joint venture partners or the joint venture itself that may cause, or require, us to take or refrain from taking actions that we would otherwise take if we owned the investment properties outright. Certain joint venture commitments requires us to invest cash in non-operating property under development and in properties that do not necessarily meet our investment criteria but which are offered for syndication through our joint venture with IREX. Capital could be committed for periods longer than expected if development timelines are longer or syndication velocity is slower than anticipated.

Compliance or failure to comply with the Americans with Disabilities Act or other safety regulations and requirements could result in substantial costs. The Americans with Disabilities Act generally requires that public buildings, including shopping centers, be made accessible to disabled persons. Noncompliance could result in the imposition of fines by the federal government or the award of damages to private litigants. If, pursuant to the Americans with Disabilities Act, we are required to make substantial alterations and capital expenditures in one or more of our properties, including the removal of access barriers, it could adversely affect our financial condition and results of operations, as well as the amount of cash available for distributions to you.

Our properties are subject to various federal, state and local regulatory requirements, such as state and local fire and life safety requirements. If we fail to comply with these requirements, we could incur fines or private damage awards. We do not know whether existing requirements will change or whether compliance with future requirements will require significant unanticipated expenditures that will affect our cash flow, results of operations and ability to pay distributions to you.

We often need to borrow money to finance our business. Our ability to internally fund operating or capital needs is limited since we must distribute at least 90% of our REIT taxable income (excluding net capital gains) to stockholders to qualify as a REIT. Consequently, we may have to borrow money to fund operating or capital needs or to satisfy the distribution requirements, imposed by the Code, to maintain status as a REIT. Borrowing money to fund operating or capital needs exposes us to various risks. For example, the investment properties may not generate enough cash to pay the principal and interest obligations on loans or we may violate a loan covenant that results in the lender accelerating the maturity date of a loan. As of December 31, 2007, we owed a total of approximately \$886,680, secured by mortgages on our investment properties, our unsecured line of credit with KeyBank and the convertible notes issued in 2006. If we fail to make timely payments on loans, including those cases where a lender has accelerated the maturity date due to a violation of a loan covenant, the lenders could foreclose on the investment properties securing the loan and we could lose our entire investment on any foreclosed properties. Once a loan becomes due, we must either pay the remaining balance or borrow additional money to pay off the maturing loan. We may not, however, be able to obtain a new loan, or the terms of the new loan, such as the interest rate or payment schedule, may not be as favorable as the terms of the maturing loan. Thus, we may be forced to sell a property at an unfavorable price to pay off the maturing loan or agree to less favorable loan terms. In addition, we have limited availability under our KeyBank line of credit which may reduce our ability to borrow funds. A total of approximately \$195,734 and \$47,383, of our indebtedness matures on or before December 31, 2008 and 2009, respectively. As of December 31, 2007, we owed approximately \$141,907, or 16% of total outstanding debt, on indebtedness that bore interest at variable rates. These rates are reset each month. A 0.25% annualized increase in these variable rates would have increased our interest expense by approximately \$355 for the year ended December 31, 2007. We may borrow additional amounts that bear interest at variable rates. If interest rates increase, the amount of interest that we would

be required to pay on these borrowings will also increase. Additionally, as lending requirements become stricter, we may find it difficult to encumber properties with terms similar to our current loan terms. This could result in a decrease in the number of properties we are able to purchase or interest payments higher than what we have been accustomed to.

Covenants in our debt agreements could adversely affect our financial condition. The mortgages on our properties contain customary covenants such as those that limit our ability, without the prior consent of the lender, to further mortgage the applicable property or to discontinue insurance coverage. Our unsecured line of credit contains customary restrictions, requirements and other limitations on our ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios and minimum ratios of unencumbered assets to unsecured debt, which we must maintain. Our continued ability to borrow under our line of credit is subject to compliance with our financial and other covenants. In addition, our failure to comply with these covenants could cause a default under the applicable debt agreement, and we may then be required to repay this debt with capital from other sources. Under those circumstances, other sources of capital may not be available to us, or be available only on unattractive terms. Additionally, in the future our ability to satisfy current or prospective lenders' insurance requirements may be adversely affected if lenders generally insist upon greater insurance coverage against acts of terrorism than is available to us in the marketplace or on commercially reasonable terms.

We rely on debt financing, including borrowings under our unsecured line of credit and debt secured by individual properties, to finance our acquisition activities and for working capital. If we are unable to obtain debt financing from these or other sources, or to refinance existing indebtedness upon maturity, our financial condition, results of operations and ability to pay distributions to you would likely be adversely affected. If we breach covenants in our debt agreements, the lenders can declare a default and, if the debt is secured, can take possession of the property securing the defaulted loan. Defaults under our debt agreements could materially and adversely affect our financial condition, results of operations and ability to pay distributions to you.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our common stock. As of December 31, 2007, we had approximately \$886,680 in total indebtedness outstanding on a consolidated basis (excluding unconsolidated joint venture debt.) Debt to total market capitalization ratio, which measures total debt as a percentage of the aggregate of total debt plus the market value of outstanding equity securities, is often used by analysts to gauge leverage for REITs such as us. Our debt to total market capitalization ratio was approximately 48.8%, excluding unconsolidated joint venture debt and 53.5%, including our pro rata share of unconsolidated joint venture debt as of December 31, 2007. Our degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. Our degree of leverage could also make us more vulnerable to a downturn in business or the economy generally. In addition, a greater amount of debt relative to our peer group could have a negative effect on our stock price.

Further issuances of equity securities may be dilutive to current stockholders. Our ability to execute our business strategy depends on our access to an appropriate blend of debt financing, including unsecured lines of credit and other forms of secured and unsecured debt and equity financing, including common and preferred equity. The interests of our existing stockholders could be diluted if additional equity securities are issued to finance future acquisitions or to repay indebtedness.

We may fail to qualify as a REIT. If we fail to qualify as a REIT, we would not be allowed to deduct amounts distributed to our stockholders in computing taxable income and would incur substantially greater expenses for taxes and have less money available to distribute. We would also be subject to federal, state and local income taxes at regular corporate rates as well as potentially the alternative minimum tax. Unless we satisfied some exception, we could not elect to be taxed as a REIT for the four taxable years following the year during in which we were disqualified.

We may fail to qualify as a REIT if, among other things:

.
less than 75% of the value of our total assets consists of cash and cash items (including receivables), real estate assets (including mortgages and interests in mortgages) and government securities at the close of each fiscal quarter;

any one security owned represents more than 5% of the value of our total assets; however, up to 20% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries;

we own more than 10% of the outstanding voting securities of any one issuer or more than 10% of the value of the outstanding securities of a single issuer other than securities in a taxable REIT subsidiary;

less than 75% of our gross income (excluding income from prohibited transactions) is derived from real estate sources. These sources include mortgage interest, rents from real property, amounts received as consideration to enter into real estate leases or to make a loan secured by a mortgage and gains from the sale of real estate assets;

less than 95% of our gross income is derived from the income items included in the 75% test and also includes interest income, dividend income and gains from the sale of securities; or

we fail to distribute at least 90% of "REIT taxable income," which does not include the deduction for distributions paid and net capital gains, to stockholders.

In order to maintain our REIT status, we may be forced to borrow funds during unfavorable market conditions. In order to maintain our REIT status, we may need to borrow funds on a short-term basis to meet the real estate investment trust distribution requirements, even if the then prevailing market conditions are not favorable for these borrowings. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our "REIT taxable income," which does not include the deduction for distributions paid and net capital gains, each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income and 100% of our undistributed income from prior years. We may need short-term debt or long-term debt, proceeds from asset sales, creation of joint ventures or sale of common stock to fund required distributions as a result of differences in timing between the actual receipt of income and the recognition of income for federal income tax purposes, or the effect of non-deductible capital expenditures, the creation of reserves or required debt or amortization payments.

Changes in market conditions could adversely affect the market price of our common stock. Since the listing of our shares on the New York Stock Exchange, the value of our shares, like other publicly traded equity securities, depends on various market conditions that may change from time to time. Among the market conditions that could affect the

value of our common stock are the following:

.

the extent of investor interest in our securities;

.

the general reputation of real estate investment trusts and the attractiveness of our equity securities in comparison to other equity securities, including securities issued by other real estate based companies;

.

material economic concerns;

.

changes in tax laws;

.

our financial performance; and

.

general stock and bond market conditions.

The market value of our common stock is based primarily upon the market's perception of our growth potential and our current and potential future earnings and cash distributions. Consequently, our common stock may trade at prices that are higher or lower than our net asset value per share of common stock. If our future earnings or cash distributions are less than expected, it is likely that the market price of our common stock will diminish.

We face possible adverse changes in tax laws. From time to time, changes in state and local tax laws or regulations are enacted, which may result in an increase in our tax liability. The shortfall in tax revenues for states and municipalities in recent years may lead to an increase in the frequency and size of these changes. If these changes occur, we may be required to pay additional taxes on our assets or income and may be assessed interest and penalties on such additional taxes. These increased tax costs could adversely affect our financial condition, results of operations and the amount of cash available to pay distributions to you.

Property taxes may increase. We are required to pay taxes based on the assessed value of our investment properties determined by various taxing authorities such as state or local governments. These taxing authorities may increase the tax rate imposed on a property or may reassess property value, either of which would increase the amount of taxes due on that property.

Third parties may be discouraged from making acquisition or other proposals that may be in stockholders' best interests. Under our governing documents, no single person or group of persons (an entity is considered a person) may own more than 9.8% of our outstanding shares of common stock (unless permitted by the board). Although the board may waive the application of these provisions to certain persons, they are not obligated to do so. These provisions may prevent or discourage a third party from making a tender offer or other business combination proposal such as a merger, even if such a proposal would be in the best interest of the stockholders.

To hedge against interest rate fluctuations, we may use derivative financial instruments that may be costly and ineffective and may reduce the overall returns on your investment. From time to time, we may use derivative financial instruments to hedge exposures to changes in interest rates on loans secured by our assets. Derivative instruments may include interest rate swap contracts, interest rate cap or floor contracts, futures or forward contracts, options or repurchase agreements. Our actual hedging decisions will be determined in light of the facts and circumstances existing at the time of the hedge and may differ from our currently anticipated hedging strategy.

To the extent that we use derivative financial instruments to hedge against interest rate fluctuations, we will be exposed to credit risk, basis risk and legal enforceability risks. In this context, credit risk is the failure of the counterparty to perform under the terms of the derivative contract. If the fair value of a derivative contract is positive, the counterparty owes us, which creates credit risk for us. Basis risk occurs when the index upon which the contract is based is more or less variable than the index upon which the hedged asset or liability is based, thereby making the hedge less effective. Finally, legal enforceability risks encompass general contractual risks including the risk that the counterparty will breach the terms of, or fail to perform its obligations under, the derivative contract. If we are unable to manage these risks effectively, our results of operations, financial condition and ability to pay distributions to you will be adversely affected.

The use of derivative financial instruments may reduce the overall returns on your investments. We have limited experience with derivative financial instruments and may recognize losses in our use of derivative financial instruments. Any loss will adversely affect our results of operations, financial condition and ability to pay distributions to you. During the year ended December 31, 2007, we entered into swap contracts to hedge our interest rate risk through our unconsolidated joint ventures. Our pro rata share of the incurred losses was \$368 from these swap contracts. Additionally, we have recorded our pro rata share of unrealized losses in the amount of \$81, which is included as a component of other comprehensive income on the accompanying consolidated financial statements.

Item 1B. Unresolved Staff Comments

We have no outstanding unresolved comments from the Commission staff regarding our periodic or current reports.

Item 2. Properties

As of December 31, 2007, we owned 134 investment properties, excluding unconsolidated joint ventures, comprised of 30 single-user retail properties, 62 Neighborhood Retail Centers, 17 Community Centers, and 25 Power Centers.

These investment properties are located in the states of Florida (1), Illinois (81), Indiana (7), Iowa (1), Michigan (1), Minnesota (28), Missouri (2), Nebraska (1), Ohio (3), Tennessee (1) and Wisconsin (8). Tenants of the investment properties are responsible for the payment of some or all of the real estate taxes, insurance and common area maintenance.

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Single-User Retail Properties					
AT&T Davenport, IA	75,000	12/07	2007	100%	AT &T
AT&T Evansville, IN	102,530	12/07	1996/2007	100%	AT &T
AT&T Joplin, MO	75,000	12/07	2007	100%	AT &T
Bally's Total Fitness St. Paul, MN	43,000	09/99	1998	100%	Bally's Total Fitness
Carmax Schaumburg, IL	93,333	12/98	1998	100%	Carmax
Carmax Tinley Park, IL	94,518	12/98	1998	100%	Carmax
Circuit City Traverse City, MI	21,337	01/99	1998	100%	Circuit City (b)
Cub Foods Arden Hills, MN	68,442	03/04	2003	100%	Cub Foods
Cub Foods Buffalo Grove, IL	56,192	06/99	1999	100%	Cub Foods (b)

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Cub Foods Hutchinson, MN	60,208	01/03	1999	100%	Cub Foods (b)
Cub Foods Indianapolis, IN	67,541	03/99	1991	100%	Cub Foods (b)
Cub Foods Plymouth, MN	67,510	03/99	1991	100%	Cub Foods
Disney Celebration, FL	166,131	07/02	1995	100%	Walt Disney World
Dominick's Countryside, IL	62,344	12/97	1975 / 2001	100%	Dominick's Finer Foods
Dominick's Glendale Heights, IL	68,879	09/97	1997	100%	Dominick's Finer Foods (b)

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Single-User Retail Properties					
Dominick's Hammond, IN	71,313	05/99	1999	100%	Food 4 Less
Dominick's Schaumburg, IL	71,400	05/97	1996	100%	Dominick's Finer Foods
Eckerd Drug Store Chattanooga, TN	10,908	05/02	1999	100%	Eckerd Drug Store
Hollywood Video Hammond, IN	7,488	12/98	1998	100%	None
Home Goods Store Coon Rapids, MN	25,145	10/05	2005	100%	Home Goods
Michael's Coon Rapids, MN	24,240	07/02	2001	100%	Michael's
Petsmart Gurnee, IL	25,692	04/01	1997	100%	Petsmart
Pik 'N Save Waupaca, WI	63,780	03/06	2002	100%	Pic 'N Save
Riverdale Commons Outlot Coon Rapids, MN	6,566	03/00	1999	100%	None
Springbrook Market West Chicago, IL	78,158	01/98	1990	100%	Springbrook Market
Staples Freeport, IL	24,049	12/98	1998	100%	Staples

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Tweeter Home Entertainment Schaumburg, IL	9,988	09/99	1998	100%	None
Verizon Joliet, IL	4,504	05/97	1995	100%	None
Walgreens Decatur, IL	13,500	01/95	1988	100%	Walgreens (b)
Walgreens Jennings, MO	15,120	10/02	1996	100%	Walgreens
Neighborhood Retail Centers					
22 nd Street Plaza Outlot Oakbrook Terrace, IL	9,970	11/97	1985/2004	100%	None
Aurora Commons Aurora, IL	126,908	01/97	1988	100%	Jewel Food Stores
Berwyn Plaza Berwyn, IL	18,138	05/98	1983	100%	Justice Produce

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Neighborhood Retail Centers					
Big Lake Town Square Big Lake, MN	67,858	01/06	2005	100%	Coborn's Super Store
Brunswick Market Center Brunswick, OH	119,540	12/02	1997 / 1998	98%	Buehler's Food Markets
Butera Market Naperville, IL	67,632	03/95	1991	100%	Butera Finer Foods
Byerly's Burnsville Burnsville, MN	72,365	09/99	1988	96%	Byerly's Food Store Erik's Bike Shop
Caton Crossing Plainfield, IL	83,792	06/03	1998	96%	Strack & Van Til
Cliff Lake Center Eagan, MN	73,582	09/99	1988	92%	None
Downers Grove Market Downers Grove, IL	104,449	03/98	1998	100%	Dominick's Finer Foods
Eastgate Shopping Ctr Lombard, IL	131,601	07/98	1959 / 2000	82%	Schroeder's Ace Hardware Illinois State of Secretary
Edinburgh Festival Brooklyn Park, MN	91,536	10/98	1997	94%	Knowlan's Super Market
Elmhurst City Center Elmhurst, IL	39,090	02/98	1994	100%	Walgreens
Gateway Square Hinsdale, IL	40,170	03/99	1985	100%	None

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Golf Road Shopping Center Niles, IL	26,109	04/97	1982	86%	None
Goodyear Montgomery, IL	12,903	09/95	1991	100%	None
Grand and Hunt Club Gurnee, IL	21,222	12/96	1996	54%	None
Greenfield Commons Aurora, IL	32,258	10/07	2006	100%	Factory Card Outlet Office Depot
Hartford Plaza Naperville, IL	43,762	09/95	1995	100%	The Tile Shop
Hawthorn Village Vernon Hills, IL	98,806	08/96	1979	96%	Dominick's Finer Foods Deal's
Hickory Creek Marketplace Frankfort, IL	55,831	08/99	1999	91%	None
High Point Center Madison, WI	86,004	04/98	1984	70%	None

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Neighborhood Retail Centers					
Homewood Plaza Homewood, IL	19,000	02/98	1993	100%	Office Depot
Iroquois Center Naperville, IL	140,981	12/97	1983	98%	Sears Logistics Services Planet Fitness Big Lots
Mallard Crossing Elk Grove Village, IL	82,929	05/97	1993	97%	Food 4 Less
Maple Grove Retail Maple Grove, MN	79,130	09/99	1998	91%	Rainbow
Medina Marketplace Medina, OH	72,781	12/02	1956 / 1999	100%	Giant Eagle, Inc
Mundelein Plaza Mundelein, IL	16,803	03/96	1990	89%	None
Nantucket Square Schaumburg, IL	56,981	09/95	1980	95%	Go Play
Northgate Center Sheboygan, WI	73,647	04/05	2003	98%	Piggly Wiggly
Oak Forest Commons Oak Forest, IL	108,330	03/98	1998	93%	Food 4 Less
Oak Forest Commons Ph III Oak Forest, IL	7,424	06/99	1999	38%	None
Oak Lawn Town Center Oak Lawn, IL	12,506	06/99	1999	100%	None

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Orland Greens Orland Park, IL	45,031	09/98	1984	97%	Shoe Carnival Dollar Tree
Orland Park Retail Orland Park, IL	8,500	02/98	1997	100%	None
Park Square Brooklyn Park, MN	137,109	08/02	1986 / 1988	94%	Fashion Bug Rainbow
Park St. Claire Schaumburg, IL	11,859	12/96	1994	35%	None
Plymouth Collection Plymouth, MN	45,915	01/99	1999	100%	Golf Galaxy
Quarry Outlot Hodgkins, IL	9,650	12/96	1996	100%	None
Riverplace Center Noblesville, IN	74,414	11/98	1992	98%	Kroger Fashion Bug

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Neighborhood Retail Centers					
River Square S/C Naperville, IL	58,260	06/97	1988	92%	None
Rose Plaza Elmwood Park, IL	24,204	11/98	1997	100%	Binny's
Rose Plaza East Naperville, IL	11,658	01/00	1999	88%	None
Rose Plaza West Naperville, IL	14,335	09/99	1997	41%	None
Schaumburg Plaza Schaumburg, IL	61,485	06/98	1994	92%	Sears Hardware
Shannon Square Shoppes Arden Hills, MN	29,196	06/04	2003	97%	None
Shingle Creek Brooklyn Center, MN	39,456	09/99	1986	91%	None
Shops at Coopers Grove Country Club Hills, IL	72,518	01/98	1991	23%	None
Six Corners Chicago, IL	80,650	10/96	1966/2005	97%	Bally Total Fitness Office Depot
St. James Crossing Westmont, IL	49,994	03/98	1990	92%	None
Stuart's Crossing St. Charles, IL	85,529	07/99	1999	93%	Jewel Food Stores
Terramere Plaza	40,965	12/97	1980	94%	None

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Arlington Heights, IL

Townes Crossing

Oswego, IL	105,989	08/02	1988	100%	Jewel Food Stores
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V. Richard's Plaza Brookfield, WI	107,952	02/99	1985	98%	V. Richards Market Guitar Center
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Wauconda Crossing Wauconda, IL	90,290	09/06	1997	99%	Dominicks (b) Walgreens
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Wauconda Shopping Ctr Wauconda, IL	31,037	05/98	1988	76%	Dollar Tree
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West River Crossing Joliet, IL	32,452	08/99	1999	96%	None
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Western & Howard

Chicago, IL	11,974	04/98	1985	100%	None
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Wilson Plaza Batavia, IL	11,160	12/97	1986	88%	None
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Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Neighborhood Retail Centers					
Winnetka Commons New Hope, MN	42,415	07/98	1990	91%	Frattalone's Hardware
Wisner/Milwaukee Plaza Chicago, IL	14,677	02/98	1994	72%	None
Woodland Heights Streamwood, IL	120,436	06/98	1956/1997	94%	Jewel Food Stores U.S. Postal Service
Community Centers					
Apache Shoppes Rochester, MN	60,780	12/06	2005/2006	100%	Cost Plus World Market Linens 'N Things
Bergen Plaza Oakdale, MN	262,720	04/98	1978	91%	K-Mart Rainbow Dollar Tree
Bohl Farm Marketplace Crystal Lake, IL	97,287	12/00	2000	100%	Linens & Things Barnes & Noble Dress Barn
Burnsville Crossing Burnsville, MN	97,310	09/99	1989	89%	Schneiderman's Furniture Petsmart
Chestnut Court Darien, IL	170,027	03/98	1987	99%	Office Depot Powerhouse Gym Just Ducky Loyola Medical Center Stein Mart
	60,930	05/07	2006	100%	Petsmart

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Delavan Crossing Delavan, WI						MC Sports Staples
Fashion Square Skokie, IL	84,580	12/97	1984	96%		Cost Plus World Market Office Depot
Fashion Square II Skokie, IL	7,151	11/04	1984	100%		None
Four Flaggs Annex Niles, IL	21,425	11/02	1973 / 2001	100%		Factory Card Outlet
Four Flaggs Niles, IL	306,661	11/02	1973 / 1998	74%		Wickes Furniture Jewel Food Stores Office Depot Petsmart Jo-Ann Fabrics Books-A-Million
Lake Park Plaza Michigan City, IN	229,639	02/98	1990	95%		Wal-Mart Valuland (b) Jo Ann Fabrics Factory Card Outlet

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Community Centers					
Park Center Plaza Tinley Park, IL	194,599	12/98	1988	90%	Central Grocers Bally's Total Fitness The Furniture Box Chuck E. Cheese
Quarry Retail Minneapolis, MN	281,648	09/99	1997	99%	Home Depot Rainbow Petsmart Office Max Old Navy Party City
Springboro Plaza Springboro, OH	154,034	11/98	1992	100%	K-Mart Kroger
Two Rivers Plaza Bolingbrook, IL	57,900	10/98	1994	100%	Marshall's Factory Card Outlet Kay Bee Toys
Village Ten Coon Rapids, MN	211,472	08/03	2002	98%	Lifetime Fitness Cub Foods Dollar Tree Stores
Woodland Commons Buffalo Grove, IL	170,398	02/99	1991	97%	Dominick's Finer Foods Jewish Community Center
Power Centers					
Baytowne Shoppes/Square Champaign, IL	118,542	02/99	1993	100%	Staples Berean Bookstore Petsmart

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Property Name	Value	Acquired	Lease Term	Percentage	Anchor Tenants
Crystal Point Crystal Lake, IL	339,898	07/04	1976/1998	100%	Famous Footwear Best Buy K-Mart Bed, Bath & Beyond The Sports Authority Cost Plus Borders Books Office Depot
Deer Trace Kohler, WI	149,881	07/02	2000	98%	Elder Beerman TJ Maxx Michael's Dollar Tree
Deer Trace II Kohler, WI	24,410	08/04	2003/2004	100%	None

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Power Centers					
Joliet Commons Joliet, IL	158,922	10/98	1995	92%	Cinemark Petsmart Barnes & Noble Old Navy MC Sports
Joliet Commons Ph II Joliet, IL	40,395	02/00	1999	100%	Office Max
Lansing Square Lansing, IL	233,508	12/96	1991	69%	Sam's Club Office Max
Mankato Heights Mankato, MN	155,173	04/03	2002	100%	TJ Maxx Michael's Old Navy Pier One
Maple Park Place Bolingbrook, IL	218,762	01/97	1992/2004	100%	Powerhouse Gym Office Depot Jo Ann Fabrics Sportmart Best Buy
Naper West Naperville, IL	164,812	12/97	1985	96%	Barrett's Home Theater Store
Naper West Ph II Naperville, IL	50,000	10/02	1985	73%	JoAnn Fabrics
Park Avenue Centre Highland Park, IL	64,943	06/97	1996/2005	67%	Staples Sam's Wine & Spirits
Park Place Plaza St. Louis Park, MN	84,999	09/99	1997/2006	100%	Office Max

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Property Name	Area	Year	Year	Percentage	Stores
Pine Tree Plaza Janesville, WI	187,413	10/99	1998	100%	Petsmart
					Gander Mountain
Riverdale Commons Coon Rapids, MN	168,277	09/99	1998	100%	TJ Maxx
					Staples
					Michaels Stores
					Old Navy LLC
					Petco
					Famous Footwear
					Rainbow
					Wickes Furniture
					Office Max
					Petco
Party City					

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Power Centers					
Rivertree Court Vernon Hills, IL	298,862	07/97	1988	97%	Best Buy Kerasotes Theaters Office Depot TJ Maxx Petsmart Michaels Stores Harlem Furniture Ulta Salon Old Country Buffet
Rochester Marketplace Rochester, MN	70,213	09/03	2001 / 2003	100%	Staples PetsMart
Salem Square Countryside, IL	112,310	08/96	1973 / 1985	100%	TJ Maxx Marshall's Audio King
Schaumburg Promenade Schaumburg, IL	91,831	12/99	1999	100%	Linens and Things Pier 1 Imports DSW Shoe Warehouse
Shakopee Valley Shakopee, MN	146,430	12/02	2000 / 2001	99%	Kohl's Office Max
Shakopee Valley Outlot Shakopee, MN	12,285	03/06	2007	100%	None
Shoppes at Grayhawk Omaha, NE	227,350	02/06	2001/2004	96%	Lowe's Michael's
Shops at Orchard Place Skokie, IL	165,141	12/02	2000	94%	Best Buy DSW Shoe Warehouse

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					Ulta Salon
					Pier 1 Imports
					Petco
					Walter E. Smithe
					Factory Card Outlet
University Crossing Mishawaka, IN	136,430	10/03	2003	72%	Marshall's
					Babies R Us
					Petco
					Dollar Tree Stores
					Pier One Imports
Woodfield Plaza Schaumburg, IL	177,160	01/98	1992	99%	Kohl's
					Wicke's
					Barnes & Noble
					Joseph A. Banks
					Clothiers
Total	11,203,472			95%	

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As of December 31, 2007, we owned 18 investment properties through our unconsolidated joint ventures, comprised of 3 Single User, 8 Neighborhood Retail Centers, 3 Community Centers, 1 Lifestyle Center, and 3 Power Centers. These investment properties are located in the states of Idaho (1), Illinois (13), Minnesota (2), Texas (1) and Wisconsin (1). Tenants of the investment properties are responsible for the payment of some or all of the real estate taxes, insurance and common area maintenance.

Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Single-User Retail Properties					
Apria Healthcare Schaumburg, IL	40,906	05/07	2000	100%	Apria Healthcare
FMC Technologies Houston, TX	462,717	03/07	1970/2006	100%	FMC Technologies
Rainbow Foods West St. Paul, MN	61,712	05/07	1982/2005	100%	Rainbow Foods
Neighborhood Retail Centers					
Cobbler Crossing Elgin, IL	102,643	05/97	1993	97%	Jewel Food Stores
Forest Lake Marketplace Forest Lake, MN	93,853	09/02	2001	100%	MGM Liquor Warehouse Cub Foods
Mapleview Grayslake, IL	114,804	03/05	2000	97%	Jewel Food Stores
Marketplace at 6 Corners Chicago, IL	117,000	11/98	1997	100%	Jewel Food Store Marshall's Dept. Store
Shops of Mill Creek Palos Park, IL	102,422	03/98	1989	98%	Jewel Food Store

Ravinia Plaza

Orland Park, IL	101,384	11/06	1990	96%	Borders Pier 1 Imports
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Regal Showplace
Crystal Lake, IL

88,400	03/05	1998	100%	Regal Cinemas
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Southshore Shopping
Center
Boise, ID

113,700	09/07	1992	0%	None
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Community Centers

Chatham Ridge
Chicago, IL

175,754	02/00	1999	98%	Cub Foods (b) Bally Total Fitness
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Greentree Center &
Outlot
Caledonia, WI

169,268	02/05	1990/1993	98%	Pic n Save K-Mart
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Thatcher Woods
River Grove, IL

193,313	04/02	1969/1999	97%	Walgreens A.J. Wright Olson's Ace Hardware Hanging Garden Banquet Binny's Beverage Depot Dominick's
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Property	Gross Leasable Area (Sq Ft)	Date Acq.	Year Built/ Renovated	Financial Occupancy	Anchor Tenants (a)
Lifestyle Center					
Algonquin Commons					
Algonquin, IL	562,218	03/06	2004/2005	91%	Circuit City PetsMart Office Max Wickes Barrett's Home Theater Border's Pottery Barn Old Navy DSW Warehouse Dick's Sporting Goods Trader Joe's Ulta
Power Centers					
Orland Park Place					
Orland Park, IL	599,664	04/05	1980/1999	99%	K & G Superstore Old Navy Cost Plus World Market Stein Mart Tiger Direct Barnes & Noble DSW Shoe Warehouse Bed, Bath & Beyond Sports Authority Binny's Beverage Depot Office Depot Dick's Sporting Goods Marshall's Filene's Basement
Randall Square					
Geneva, IL	216,485	05/99	1999	99%	Marshall's Dept. Store Bed, Bath & Beyond Old Navy

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						Factory Card Outlet
						Shoe Carnival
						Petsmart
						Michaels Stores
Woodfield Commons						
E/W			1973, 1975			
Schaumburg, IL	207,452	10/98	1997	98%		Toys R Us
						Luna Carpets
						Cost Plus World
						Market
						Party City
						Discovery Clothing
						Harlem Furniture
						REI
Total	3,523,695			94%		Steve & Barry's
Total /Weighted Average	14,727,167			95%		

- (a) Anchor tenants are defined as any tenant occupying 10,000 or more square feet. We use the tenant's trade name, which may be different than the legal entity named on the lease.
- (b) We continue to receive rent from tenants who have vacated but are still obligated under their lease terms. These tenants continue to pay an amount equal to the contractual obligations under their lease.

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The following table represents an analysis of lease expirations based on the leases in place at December 31, 2007

Lease Expiration Year	Number of Leases Expiring (1)	GLA Under Expiring Leases (Sq.Ft.) (1)	Percent of Total Leased GLA	Total Annualized Base Rent (\$)	Percent of Total Annualized Base Rent (%)	Weighted Average Annualized Base Rent (\$/Sq.Ft.) (2)
M-T-M	29	110,270	0.78%	\$ 1,202	0.63%	\$ 10.90
2008	230	1,050,954	7.42%	13,344	6.94%	12.70
2009	285	1,378,705	9.74%	17,947	9.34%	13.02
2010	232	1,066,160	7.52%	15,518	8.08%	14.56
2011	187	1,388,053	9.81%	17,664	9.19%	12.73
2012	251	1,270,665	8.98%	19,819	10.31%	15.60
2013	109	850,267	6.00%	12,986	6.76%	15.27
2014	66	963,166	6.80%	13,389	6.97%	13.90
2015	66	725,335	5.12%	11,394	5.93%	15.71
2016	46	528,784	3.74%	7,810	4.06%	14.77
2017+	128	4,825,722	34.09%	61,094	31.79%	12.66
Total	1,629	14,158,081	100.00%	\$ 192,167	100.00%	\$ 13.57

(1)

Includes leases expiring on unconsolidated properties owned in joint ventures.

(2)

Annualized base rent for all leases in place at report date are calculated as follows: annualized current monthly base rents in-place.

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The following table lists the gross leasable area and approximate physical occupancy levels for our investment properties as of December 31, 2007, 2006, 2005, 2004 and 2003. N/A indicates we did not own the investment property at the end of the year.

<u>Properties</u>	Gross Leasable Area	2007 %	2006 %	2005 %	2004 %	2003 %
22 nd Street Plaza Outlot, Oakbrook Terrace, IL	9,970	100	99	99	100	100
Apache Shoppes, Rochester, MN	60,780	100	96	N/A	N/A	N/A
AT&T, Davenport, IA	75,000	100	N/A	N/A	N/A	N/A
AT&T, Evansville, IN	102,530	100	N/A	N/A	N/A	N/A
AT&T, Joplin, MO	75,000	100	N/A	N/A	N/A	N/A
Aurora Commons, Aurora, IL	126,908	100	89	98	98	100
Bally's Total Fitness, St. Paul, MN	43,000	100	100	100	100	100
Baytowne Shoppes/Square, Champaign, IL	118,542	99(a)	99	98	98	88
Bergen Plaza, Oakdale, MN	262,720	91	88	97	98	98
Berwyn Plaza, Berwyn, IL	18,138	100	100	21	26	26
Big Lake Town Square, Big Lake, MN	67,858	98(a)	100	N/A	N/A	N/A
Bohl Farm Marketplace, Crystal Lake, IL	97,287	100	100	100	100	100
Brunswick Market Center, Brunswick, OH	119,540	98	95	94	91	83
Burnsville Crossing, Burnsville, MN	97,310	89	99	99	99	100
Butera Market, Naperville, IL	67,632	100	100	100	100	97
Byerly's Burnsville, Burnsville, MN	72,365	96	96	96	100	100
Carmax, Schaumburg, IL	93,333	100	100	100	100	100
Carmax, Tinley Park, IL	94,518	100	100	100	100	100
Caton Crossing, Plainfield, IL	83,792	96	96	96	95	100
Chestnut Court, Darien, IL	170,027	99	100	99	88	99
Circuit City, Traverse City, MI	21,337	0(a)	0	0	100	100
Cliff Lake Center, Eagan, MN	73,582	90(a)	96	100	100	97
Crystal Point, Crystal Lake, IL	339,898	100	100	100	100	N/A
Cub Foods, Arden Hills, MN	68,442	100	100	100	100	N/A
Cub Foods, Buffalo Grove, IL	56,192	100	100	100	100	0
Cub Foods, Hutchinson, MN	60,208	0(a)	0	0	0	0
Cub Foods, Indianapolis, IN	67,541	0(a)	0	0	0	0
Cub Foods, Plymouth, MN	67,510	100	100	100	100	100
Deer Trace, Kohler, WI	149,881	98	98	100	98	98
Deer Trace II, Kohler, WI	24,410	100	100	100	90	N/A
Delavan Crossing, Delavan, WI	60,930	100	N/A	N/A	N/A	N/A
Disney, Celebration, FL	166,131	100	100	100	100	100
Dominick's, Countryside, IL	62,344	100	100	100	100	100
Dominick's, Glendale Heights, IL	68,879	0(a)	100	100	100	100

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Dominick's, Hammond, IN	71,313	100	100	100	100	100
Dominick's, Schaumburg, IL	71,400	100	100	100	100	100
Downers Grove Market, Downers Grove, IL	104,449	100	99	100	99	99
Eastgate Shopping Center, Lombard, IL	131,601	81(a)	85	84	88	93
Eckerd Drug Store, Chattanooga, TN	10,908	100	100	100	100	100
Edinburgh Festival, Brooklyn Park, MN	91,536	92(a)	97	99	100	99
Elmhurst City Center, Elmhurst, IL	39,090	100	100	100	97	97
Fashion Square, Skokie, IL	84,580	96	100	96	75	95
Fashion Square II, Skokie, IL	7,151	100	100	100	100	N/A
Four Flaggs, Niles, IL	306,661	74	95	99	99	81
Four Flaggs Annex, Niles, IL	21,425	100	100	100	100	100
Gateway Square, Hinsdale, IL	40,170	92(a)	100	96	100	98
Golf Road Plaza, Niles, IL	26,109	86	95	99	83	68
Goodyear, Montgomery, IL	12,903	51(a)	100	100	100	100
Grand and Hunt Club, Gurnee, IL	21,222	54	100	100	100	100

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<u>Properties</u>	Gross Leaseable Area	2007 %	2006 %	2005 %	2004 %	2003 %
Greenfield Commons, Aurora, IL	32,258	100	N/A	N/A	N/A	N/A
Hartford Plaza, Naperville, IL	43,762	100	100	95	100	97
Hawthorn Village, Vernon Hills, IL	98,806	96	83	96	100	100
Hickory Creek Marketplace, Frankfort, IL	55,831	91	86	89	97	96
High Point Center, Madison, WI	86,004	70	78	94	92	89
Hollywood Video, Hammond, IN	7,488	100	100	100	100	100
Home Goods Store, Coon Rapids, MN	25,145	100	100	100	N/A	N/A
Homewood Plaza, Homewood, IL	19,000	100	100	100	100	8
Iroquois Center, Naperville, IL	140,981	98	95	99	65	69
Joliet Commons, Joliet, IL	158,922	92	100	100	100	100
Joliet Commons Ph II, Joliet, IL	40,395	100	100	79	79	100
Lake Park Plaza, Michigan City, IN	229,639	70(a)	72	72	74	73
Lansing Square, Lansing, IL	233,508	58(a)	88	89	99	99
Mallard Crossing, Elk Grove Village, IL	82,929	97	100	100	99	32
Mankato Heights, Mankato, MN	155,173	97(a)	99	97	100	98
Maple Grove Retail, Maple Grove, MN	79,130	91	97	97	97	97
Maple Park Place, Bolingbrook, IL	218,762	98(a)	100	97	100	71
Medina Marketplace, Medina, OH	72,781	98(a)	100	100	100	100
Michael's, Coon Rapids, MN	24,240	100	100	100	100	100
Mundelein Plaza, Mundelein, IL	16,803	89	100	100	98	100
Nantucket Square, Schaumburg, IL	56,981	95	77	94	94	94
Naper West Ph II, Naperville, IL	50,000	73	73	89	85	85
Naper West, Naperville, IL	164,812	74(a)	88	73	73	73
Northgate Shopping Center, Sheboygan, WI	73,647	98	98	95	N/A	N/A
Oak Forest Commons, Oak Forest, IL	108,330	93	99	31	32	99
Oak Forest Commons Ph III, Oak Forest, IL	7,424	38	76	76	88	100
Oak Lawn Town Center, Oak Lawn, IL	12,506	100	100	100	100	100
Orland Greens, Orland Park, IL	45,031	90(a)	91	92	94	100
Orland Park Retail, Orland Park, IL	8,500	100	100	100	100	100
Park Avenue Center, Highland Park, IL	64,943	67	67	29	0	100
Park Center Plaza, Tinley Park, IL	194,599	90	66	97	99	95
Park Place Plaza, St. Louis Park, MN	84,999	100	100	100	100	98
Park Square, Brooklyn Park, MN	137,109	94	94	50	55	54
Park St. Claire, Schaumburg, IL	11,859	35	100	100	100	100
Petsmart, Gurnee, IL	25,692	100	100	100	100	100
Pine Tree Plaza, Janesville, WI	187,413	99(a)	100	98	97	95

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Plymouth Collection, Plymouth, MN	45,915	89(a)	100	100	100	100
Quarry Outlot, Hodgkins, IL	9,650	100	67	100	100	100
Quarry Retail, Minneapolis, MN	281,648	99	99	97	100	100
Riverdale Commons, Coon Rapids, MN	168,277	78(a)	100	100	100	100
Riverdale Commons Outlot, Coon Rapids, MN	6,566	100	100	100	100	100
Riverplace Center, Noblesville, IN	74,414	94(a)	100	97	94	95
River Square Shopping Center, Naperville, IL	58,260	92	92	100	92	91
Rivertree Court, Vernon Hills, IL	298,862	97(a)	94	99	99	96
Rochester Marketplace, Rochester, MN	70,213	100	100	54	91	90
Rose Naper Plaza East, Naperville, IL	11,658	88	88	100	100	89
Rose Naper Plaza West, Naperville, IL	14,335	41	100	89	100	100
Rose Plaza, Elmwood Park, IL	24,204	100	100	100	100	100
Roundy's, Waupaca, WI	63,780	100	100	N/A	N/A	N/A
Salem Square, Countryside, IL	112,310	100	100	100	100	95
Schaumburg Plaza, Schaumburg, IL	61,485	92	91	91	91	97
Schaumburg Promenade, Schaumburg, IL	91,831	100	100	100	100	100

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<u>Properties</u>	Gross Leaseable Area	2007 %	2006 %	2005 %	2004 %	2003 %
Shakopee Outlot, Shakopee, MN	12,285	100	N/A	N/A	N/A	N/A
Shakopee Valley, Shakopee, MN	146,430	99	99	100	100	100
Shannon Square, Shoppes, Arden Hills, MN	29,196	92(a)	84	100	N/A	N/A
Shingle Creek, Brooklyn Center, MN	39,456	91	98	73	82	85
Shops at Coopers Grove, Country Club Hills, IL	72,518	23	18	16	18	8
Shoppes at Grayhawk, Omaha, NB	227,350	93(a)	96	N/A	N/A	N/A
Shops at Orchard Place, Skokie, IL	165,141	94	95	98	89	92
Six Corners, Chicago, IL	80,650	97	97	97	72	96
Springboro Plaza, Springboro, OH	154,034	100	100	100	100	100
Springbrook Market, West Chicago, IL	78,158	100	100	0	0	0
St. James Crossing, Westmont, IL	49,994	88(a)	78	98	95	80
Staples, Freeport, IL	24,049	100	100	100	100	100
Stuart's Crossing, St. Charles, IL	85,529	93	95	95	98	95
Terramere Plaza, Arlington Heights, IL	40,965	94	78	77	80	96
Townes Crossing, Oswego, IL	105,989	100	98	100	100	94
Tweeter, Schaumburg, IL	9,988	100	100	100	100	100
Two Rivers Plaza, Bolingbrook, IL	57,900	100	100	100	97	100
University Crossing, Mishawaka, IN	136,430	69(a)	92	100	98	88
V. Richard's Plaza, Brookfield, WI	107,952	97(a)	90	98	98	97
Verizon Wireless, Joliet, IL	4,504	100	100	100	100	100
Village Ten, Coon Rapids, MN	211,472	98	98	98	98	98
Walgreens, Decatur, IL	13,500	0(a)	0	0	100	100
Walgreens, Jennings, MO	15,120	100	100	100	100	100
Wauconda Crossing, Wauconda, IL	90,290	99	99	N/A	N/A	N/A
Wauconda Shopping Center, Wauconda, IL	31,037	76	31	100	100	100
West River Crossing, Joliet, IL	32,452	96	96	100	95	91
Western & Howard, Chicago, IL	11,974	100	83	83	100	100
Wilson Plaza, Batavia, IL	11,160	88	88	88	78	100
Winnetka Commons, New Hope, MN	42,415	85(a)	87	78	89	65
Wisner/Milwaukee Plaza, Chicago, IL	14,677	72	55	100	100	100
Woodfield Plaza, Schaumburg, IL	177,160	99	99	94	94	91
Woodland Commons, Buffalo Grove, IL	170,398	95(a)	91	97	99	89
Woodland Heights, Streamwood, IL	120,436	94	93	93	87	86
Sub-total	11,203,472					

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The following table lists the gross leasable area and approximate physical occupancy levels for our investment properties in our unconsolidated joint ventures as of December 31, 2007, 2006, 2005, 2004 and 2003. N/A indicates we did not own the investment property at the end of the year.

<u>Properties</u>	Gross Leaseable Area	2007 %	2006 %	2005 %	2004 %	2003 %
Algonquin Commons, Algonquin, IL	562,218	88(a)	97	N/A	N/A	N/A
Apria Healthcare, Schaumburg, IL	40,906	100	N/A	N/A	N/A	N/A
Chatham Ridge, Chicago, IL	175,754	67(a)	69	99	95	100
Cobbler Crossing, Elgin, IL	102,643	97	99	94	96	97
FMC Technologies, Houston, TX	462,717	100	N/A	N/A	N/A	N/A
Forest Lake Marketplace, Forest Lake, MN	93,853	100	100	100	98	92
Greentree Center & Outlot, Caledonia, WI	169,268	97	97	94	N/A	N/A
Mapleview, Grayslake, IL	114,804	94	92	93	N/A	N/A
Marketplace at Six Corners, Chicago, IL	117,000	100	100	100	100	100
Orland Park Place, Orland Park, IL	599,664	99	94	93	N/A	N/A
Rainbow Foods, West St. Paul, MN	61,712	100	N/A	N/A	N/A	N/A
Randall Square, Geneva, IL	216,485	99	99	100	100	97
Ravinia Plaza, Orland Park, IL	101,384	96(b)	81	N/A	N/A	N/A
Regal Showplace Center, Crystal Lake, IL	88,400	100	100	96	N/A	N/A
Shoppes of Mill Creek, Palos Park, IL	102,422	97(a)	99	99	100	100
Southshore Shopping Center, Boise, ID	113,700	0	N/A	N/A	N/A	N/A
Thatcher Woods, River Grove, IL	193,313	97	98	98	99	98
Woodfield Commons-East/West, Schaumburg, IL	207,452	95(a)	99	90	92	100
Sub-total	3,523,695					
Grand Total	14,727,167					

(a) We receive rent from tenants who have vacated but are still obligated under their lease terms, which results in economic occupancy ranging from 69% to 100% at December 31, 2007, for each of these centers.

(b) In connection with the purchase of several investment properties, we, from time to time, receive payments under master lease agreements covering space vacant at the time of acquisition. The

payments will be made to us for a period ranging from one to two years from the date of acquisition of the property or until the vacant space is leased and tenants begin paying rent. U.S. generally accepted accounting principles ("U.S. GAAP") require 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 December 31, 2007, the Company had one investment property, Ravinia Plaza, located in Orland Park, Illinois subject to master lease agreements.

Item 3. Legal Proceedings

We are not party to, and none of our properties is subject to, any material pending legal proceedings.

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

There were no matters submitted to a vote of security holders during the fourth quarter of 2007.

PART II

(In this Part II disclosure, all amounts are presented in thousands, except per share data and square footage amounts)

Item 5.**Market for Registrant's Common Equity, Related Stockholder Matters and Issuer****Purchases of Equity Securities****Market Information**

As of February 27, 2008, there were 5,465 stockholders of record of our common stock. Our shares have been listed on the New York Stock Exchange since June 9, 2004 under the symbol IRC. During the years ended December 31, 2007 and 2006, we paid distributions equal to \$0.98 and \$0.96, respectively per share, per annum. The distribution was paid on a monthly basis equal to the pro rata share of the per annum distribution. The following table sets forth, for the periods indicated, the high and low sales prices for our shares on the New York Stock Exchange.

	For the Quarter Ended	High	Low
December 31, 2007	\$	16.43	13.50
September 30, 2007		17.49	14.11
June 30, 2007		19.32	16.50
March 31, 2007		21.14	17.69
December 31, 2006	\$	19.88	17.10
September 30, 2006		18.18	14.50
June 30, 2006		16.40	12.70
March 31, 2006		16.63	14.11

Securities Authorized for Issuance Under Equity Compensation Plans

The following table presents certain information, as of December 31, 2007, with respect to compensation plans, including individual compensation arrangements, under which equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon	Weighted average exercise price of	Number of securities remaining available for
---------------	--	------------------------------------	--

	exercise of outstanding options, warrants and rights (a)		outstanding options, warrants and rights (b)	future issuance under equity compensation plans (c) (excluding securities reflected in column (a))
Equity compensation plans approved by stockholders:				
2005 Equity Award Plan	60	\$	16.86	2,440
Equity compensation plans not approved by stockholders				
Independent Director Stock Option Plan (a)	20		12.96	-
Restricted stock awards to employees (b)	18		12.93	-
Total	98		15.32	2,440

(a)

We adopted the Independent Director Stock Option Plan concurrently with the commencement of our first offering in 1994. A total of 50 shares were authorized and reserved for issuance under this plan. Only non-employee directors were eligible to participate in this plan. As of December 31, 2007, options to purchase all 50 authorized shares were issued, of which 30 were exercised.

(b)

These shares were issued pursuant to employment contracts with certain of our officers. Restricted stock awards were designed to provide long-term incentives to these executive officers.

Reference is made to Notes 6 and 14 to the financial statements in Item 8 of the Annual Report for a discussion of our compensation plans.

Performance Graph

The graph below compares the cumulative total return on our common stock for the last five fiscal years, with the cumulative total return on the Standard & Poor's 500 Stock Index ("S&P 500") and with the FTSE NAREIT Equity REIT Index over the same period (assuming the investment of \$100 in our common stock, the S&P 500 Index and the FTSE NAREIT Equity REIT Index on December 31, 2002, and the reinvestment of all dividends).

	2002	2003	2004	2005	2006	2007
Inland Real Estate Corporation	100.00	109.38	188.78	186.32	250.41	200.67
S&P 500	100.00	128.70	142.69	149.69	173.34	182.86
FTSE NAREIT Equity	100.00	137.13	180.43	202.38	273.34	230.45

Distributions

For federal income tax purposes, distributions may consist of ordinary income distributions, non-taxable return of capital, capital gains or a combination thereof. Distributions to the extent of our current and accumulated earnings and profits for federal income tax purposes are taxable to the recipient as either ordinary or capital gain distributions. Distributions in excess of these earnings and profits (calculated for tax purposes) will constitute a non-taxable return of capital rather than a distribution and will reduce the recipient's basis in the shares to the extent thereof, and thereafter as taxable gain. Distributions in excess of earnings and profits have the effect of deferring taxation of the amount of the distribution until the sale of the stockholder's shares.

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In order to maintain our status as a REIT, we must distribute at least 90% of our "REIT taxable income," to our stockholders. REIT taxable income is defined as taxable income excluding the deduction for distributions paid and net capital gains. For the years ended December 31, 2007 and 2006, our "REIT taxable income" was \$63,034 and \$54,864, respectively. We declared monthly cash distributions to stockholders totaling \$63,824 and \$64,491 or \$0.98 and \$0.96 on an annual basis per share for the years ended December 31, 2007 and 2006, respectively. Future distributions are determined by our board of directors. We expect to continue paying monthly cash distributions to maintain our status as a REIT. We annually notify our stockholders of the taxability of distributions paid during the proceeding year. The following table sets forth the taxability of distributions, on a per share basis, paid in 2007 and 2006:

		2007 (a)	2006 (b)
Ordinary income	\$	0.917	0.827
Non-taxable return of capital		0.008	0.127
Unrecaptured Section 1250 gains		0.019	-
Long-term capital gains		0.050	0.006
Qualified dividends		0.038	0.016

(a)

The December distribution declared on December 17, 2007, with a record date of December 31, 2007 and payment date of January 17, 2008, is reportable for tax purposes in 2008 and is not reflected in the 2007 allocation.

(b)

The December distribution declared on December 19, 2006, with a record date of January 2, 2007 and payment date of January 17, 2007, is reportable for tax purposes in 2007 and is not reflected in the 2006 allocation.

Issuer Purchases of Equity Securities

The Company did not purchase equity securities during the year ended December 31, 2007.

Item 6. Selected Financial Data

INLAND REAL ESTATE CORPORATION
For the years ended December 31, 2007, 2006, 2005, 2004, and 2003
(In thousands, except per share data)

The following table sets forth Selected Consolidated Financial Data on a historical basis for the five years ended December 31, 2007. This information should be read in conjunction with the consolidated financial statements (including notes thereto) and Management's Discussion and Analysis of Financial Condition and Results of Operations, each included elsewhere in this Form 10-K. This historical Selected Consolidated Financial Data has been derived from the audited consolidated financial statements.

	2007	2006	2005	2004	2003
Total assets	\$ 1,321,319	1,269,161	1,188,999	1,207,092	1,280,656
Mortgages payable	606,680	622,280	602,817	596,125	615,512
Total revenues	189,359	178,235	180,207	188,417	172,328
Income from continuing operations	41,069	38,122	44,736	43,034	39,444
Net income available to common stockholders	43,816	45,184	47,255	49,374	41,866
Net income per common share, basic and diluted	0.67	0.67	0.70	0.74	0.64
Total distributions declared	63,824	64,491	64,212	62,618	61,166
Distributions per common share	0.98	0.96	0.95	0.94	0.94
Cash flows provided by operating activities	84,378	83,771	86,128	86,118	80,098
Cash flows used in investing activities	(150,752)	(115,936)	(40,500)	(54,059)	(87,060)
Cash flows provided by (used in) financing activities	57,183	32,930	(54,332)	(54,939)	43,916
Weighted average common shares outstanding, basic	65,281	67,154	67,244	66,454	65,064
Weighted average common shares outstanding, diluted	65,346	67,223	67,298	66,504	65,068

The above financial data should be read in conjunction with the consolidated financial statements and related notes appearing elsewhere in this Annual Report.

Item 7.

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 Annual Report on Form 10-K 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 including, without limitation, limitations on the area in which we may acquire properties; risks associated with borrowings secured by our properties; competition for tenants and customers; federal, state or local regulations; adverse changes in general economic or local conditions; competition for property acquisitions with third parties that have greater financial resources than we do; inability of lessees to meet financial obligations; uninsured losses and risks of failing to qualify as a real estate investment trust ("REIT").

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 year to year impact our liquidity and capital resources; and

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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.

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.

We are now permitted to participate in certain activities from which we were previously precluded in order to maintain our qualifications as a REIT, so long as these activities are conducted in entities which elect to be treated as taxable REIT subsidiaries (TRS) under the Code. In 2005, we formed a TRS, Inland Venture Corporation (IVC), to be a partner in many of our unconsolidated joint ventures. As such, we are subject to federal and state income taxes on the income we receive from the activities of IVC. The provision for income tax relates to the taxable income of IVC and represents an effective federal and state income tax rate of 38%.

Executive Summary

We are an owner/operator of neighborhood, community, power, lifestyle and single tenant retail centers. 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 December 31, 2007, we owned interests in 152 investment properties, including those owned through our unconsolidated joint ventures.

Essentially all of our revenues and cash flows are generated by collecting rental payments from our tenants. Our goal is to continue increasing our revenues by acquiring additional investment properties and re-leasing those spaces that are vacant, or may become vacant, at existing properties, at more favorable rental rates. During the year ended December 31, 2007, we executed 92 new and 219 renewal leases, aggregating approximately 1,189,000 square feet. The 92 new leases comprise approximately 294,000 square feet with an average rental rate of \$19.58 per square foot, a 30.3% increase over the average expiring rate. The 219 renewal leases comprise approximately 895,000 square feet with an average rental rate of \$15.75 per square foot, a 20.0% increase over the average expiring rate. During 2008, there are 230 leases expiring which comprise approximately 1,051,000 square feet and account for approximately 6.9% of our annualized base rent. We will attempt to renew or re-lease these spaces at more favorable rental rates to provide increased cash flows. 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, draws on our line of credit and earnings we retain that are not distributed to our stockholders to continue purchasing additional investment properties. Additionally, we believe we have the ability to obtain financing proceeds of at least \$119,823 from 37 currently unencumbered investment properties. However, our outstanding debt may be limited under our KeyBank line of credit covenants, which may limit our ability to borrow funds.

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

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

We believe EBITDA is useful to us and to an investor as a supplemental measure in evaluating our financial performance because it excludes expenses that we believe may not be indicative of our operating performance.

EBITDA is defined as earnings (losses) from operations, calculated in accordance with U.S. GAAP, excluding: (1) interest expense; (2) income tax benefit or expenses; (3) depreciation and amortization; and (4) gains (losses) on non-operating property. By excluding interest expense, EBITDA measures our financial performance regardless of how we finance our operations and capital structure. By excluding depreciation and amortization expense, we believe we can more accurately assess the performance of our portfolio. Because EBITDA is calculated before recurring cash charges such as interest expense and taxes and is not adjusted for capital expenditures or other recurring cash requirements, it neither reflects the amount of capital needed to maintain our properties nor reflects trends in interest costs due to changes in interest rates or increases in borrowing. EBITDA should be considered only as a supplement to net earnings and may be calculated differently by other equity REITs.

We look at several factors to measure our operating performance:

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

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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:

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

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

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

Joint Ventures:

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

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

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

Operations:

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

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

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

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

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

Development Joint Ventures

For ground-up developments, we are utilizing a disciplined partnership strategy that diversifies our risk. We believe that our in place development joint ventures are a productive use of our capital, providing accretive stabilized returns on development cost. We believe the joint ventures we have formed with five established development teams are capital efficient, provide attractive returns, and provide us with the option to acquire finished assets at a discount to the current market cap rate or sell them for a profit.

TMK Development Land sales, at Savannah Crossing (*zoned for 260,000 square feet of retail space*), located in Aurora, Illinois, to Wal-Mart and a home developer enabled us to quickly recoup all of our initial investment, leaving the rest of the land free and clear for development. We completed a pad sale to Fifth Third bank in January 2008. Wal-Mart and Walgreen's stores anchor the center and both are scheduled to open for business in the first half of 2008. Two multi-tenant buildings are also near completion and are already significantly leased.

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North American Real Estate - The North Aurora Towne Centre (zoned for 805,000 square feet of retail space), located in North Aurora, Illinois, surrounds an existing center anchored by Target and JC Penney's. We have signed leases for several spaces in the multi-tenant buildings completed in 2007 and leases with La Z Boy and Best Buy for build-to-suits, with stores opening in 2008. We are currently negotiating land parcel sales to retailers and have signed letters of intent from several potential tenants at this location. Phases one and two of the development are scheduled for completion in 2009 and Phase III is expected to be finished by year end 2010.

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Tucker Development Corporation - The Shops at Lakemoor (zoned for 535,000 square feet of retail space), located in Lakemoor, Illinois, is surrounded by well-established communities that we believe are currently "under-retailed." We are currently negotiating letters of intent with a big-box anchor and a number of junior box anchors for this development.

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Pine Tree Institutional Realty - We now have three development projects with this partner; Southshore Shopping Center in Boise, Idaho; Orchard Crossings in Fort Wayne, Indiana; and Lantern Commons in Westfield, Indiana.

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Southshore Shopping Center is located next to a thriving Albertson's anchored center and is a former K-Mart that is being re-developed into a mix of retail spaces. We are currently negotiating letters of intent with three national retailers. The target completion date for this redevelopment is late 2009.

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Orchard Crossing (zoned for 275,000 square feet of retail space) is located in Fort Wayne, Indiana. In 2007, we completed a land sale of approximately 11 acres for \$4.5 million to Target Corporation. In addition, we have a signed lease with Gordman's for a 50,000 square foot build-to-suit at this location and letters of intent on another 40,000 square feet have been received from other retailers. We expect to complete this development by the first half of 2009.

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Lantern Commons (zoned for 450,000 square feet of retail space) is located in Westfield, Indiana, which is a suburb of Indianapolis. This is our newest acquisition with Pine Tree. We expect to develop 438,000 square feet of multi-tenant retail space plus free-standing out parcels for sale or ground lease. We are already negotiating letters of intent with two national retailers to anchor the center and have received indications of interest from at least five junior anchors.

Paradise Development Group - Tuscany Village (zoned for 350,000 square feet of retail space) is located in the Orlando area. We are currently negotiating land sales contracts with a national discount grocer and two restaurant chains. Two other national retailers are considering anchoring the project and we are negotiating letters of intent with a handful of junior box anchors. The target completion date for this project is late 2009.

Acquisitions and Dispositions

During the years ended December 31, 2007 and 2006, we completed the following acquisitions and dispositions:

Investment property acquisitions during the year ended December 31, 2007 and 2006:

Date	Property	City	State	GLA Sq.Ft.	Purchase Price	Cap Rate	Financial Occupancy at time of Acquisition
12/27/07	AT&T (a)	Davenport	IA	75,000	\$ 15,500	7.11%	100%
12/27/07	AT&T (a)	Evansville	IN	102,530	15,816	7.11%	100%
12/27/07	AT&T (a)	Joplin	MO	75,000	13,000	7.11%	100%
10/19/07	Greenfield Commons (a)	Aurora	IL	32,258	6,000	7.28%	100%
08/31/07	Orland Park Place Outlots	Orland Park	IL	37,010	10,871	6.16%	100%
05/18/07	Rainbow Foods (a)	West St. Paul	MN	61,712	6,850	6.85%	100%
05/02/07	Apria Healthcare (a)	Schaumburg	IL	40,906	8,200	7.60%	100%
05/01/07	Delavan Crossing (a)	Delavan	WI	60,930	9,625	6.91%	100%
03/29/07	FMC Technologies (a)	Houston	TX	462,717	65,000	6.40%	100%
01/30/07	Best Buy (a)	Burbank	IL	71,113	10,100	6.79%	100%
12/14/06	Apache Shoppes	Rochester	MN	60,780	11,293	7.01%	96%
10/26/06	Ravinia Plaza (b)	Orland Park	IL	101,384	18,117	7.11%	81%
08/31/06	Wauconda Crossing	Wauconda	IL	90,920	13,950	8.41%	99%
03/28/06	Pick 'n Save	Waupaca	WI	63,780	8,125	8.70%	100%
02/15/06	Algonquin Commons (b)	Algonquin	IL	560,433	154,000	6.70%	99%
02/07/06	The Shoppes at Grayhawk	Omaha	NE	227,350	27,067	6.70%	99%
01/11/06	Honey Creek Commons	Terre Haute	IN	179,100	23,782	6.70%	100%
01/09/06	Big Lake Town Square	Big Lake	MN	67,835	9,985	7.73%	100%
				2,370,758	\$ 427,281		

(a)

These properties were acquired through our joint venture with IREX.

(b)

The property was acquired through our joint venture with NYSTRS.

Development property acquisitions during the year ended December 31, 2007 and 2006:

Date	Property	Joint Venture Partner	City	State	Approx. Acres	Purchase Price
12/21/07	Lantern Commons	Pine Tree Institutional Realty, LLC	Westfield	IN	63	\$ 16,691
09/27/07	Southshore Shopping Center	Pine Tree Institutional Realty, LLC	Boise	ID	7	5,000
09/10/07	North Aurora Town Centre Phase III	North American Real Estate	North Aurora	IL	63	23,000
05/14/07	Shops at Lakemoor	Tucker Development Corporation	Lakemoor	IL	74	27,545
04/02/07	Orchard Crossing	Pine Tree Institutional Realty, LLC	Ft. Wayne	IN	32	11,945
02/23/07	Tuscany Village	Paradise Development Group, Inc.	Clermont	FL	53	12,326
08/30/06	North Aurora Town Centre	North American Real Estate	North Aurora	IL	26	9,200
06/06/06	North Aurora Town Centre	North American Real Estate	North Aurora	IL	31	18,000
03/31/06	Vacant Lot 6 (Shakopee Valley)	N/A	Shakopee	MN	2	848
01/05/06	Savannah Crossing	TMK Development, Inc	Aurora	IL	56	8,364
					407	\$ 132,919

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Investment property dispositions during the year ended December 31, 2007 and 2006:

Date	Property	City	State	GLA Sq. Ft.	Sale Price	Gain/Loss on Sale
		D o w n e r s			\$	
12/27/07	Maple Plaza	Grove	IL	31,196	4,250 \$	1,283
09/24/07	Best Buy (b)	Burbank	IL	71,113	11,495	-
		W e s t				
05/11/07	Springhill Fashion Center	Dundee	IL	125,198	9,312	1,223
	Honey Creek Commons (a)					
04/27/07	(b)	Terra Haute	IN	179,100	26,416	172
09/12/06	Regency Point	Lockport	IL	54,841	8,300	3,883
06/14/06	Bakers Shoes	Chicago	IL	20,000	3,250	2,323
04/27/06	Sears	Montgomery	IL	34,300	2,700	6
02/22/06	Crestwood Plaza	Crestwood	IL	20,044	1,425	(195)
				535,792 \$	67,148 \$	8,695

(a)

This property was contributed to our joint venture with IREX and the gain shown relates to our contribution of the property to the joint venture. The gain is included in equity in earnings of unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income.

(b)

This property is included as a disposition as all of the TIC interests have been sold through our joint venture with IREX.

Development property dispositions during the year ended December 31, 2007 and 2006:

Date	Property	Joint Venture Partner	City	State	Approx. Acres	Sales Price
11/16/07	Orchard Crossing	Pine Tree Institutional Realty, LLC	F t . Wayne	IN	11 \$	4,500
03/07/07	Savannah Crossing	TMK Development, Inc	Aurora	IL	25	5,443

01/13/06	Savannah Crossing	TMK Development, Inc	Aurora	IL	15	2,789
					51	\$ 12,732

Critical Accounting Policies

General

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

Valuation and Allocation of Investment Properties. On a quarterly basis, in accordance with Statement of Financial Accounting Standards No. 144, we review impairment indicators and, if necessary, conduct an impairment analysis to ensure that the carrying value of each investment property does not exceed its estimated fair value. We evaluate our investment properties to assess whether any impairment indicators are present, including recurring operating losses and significant adverse changes in legal factors or business climate. If an investment property is considered impaired, a loss is recorded to reduce the carrying value of the property to its estimated fair value. During the year ended December 31, 2007, the Company recorded an impairment loss of \$362 related to a 13,500 square foot single-user retail center located in Decatur, Illinois. No such losses were required or recorded in the accompanying financial statements as of and for the years ended December 31, 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 December 31, 2007, we had not allocated any amounts to customer relationships.

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

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

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

If all of the above criteria are met, we classify the asset as held for sale. On the day that these criteria are met, we suspend depreciation on the assets held for sale, including depreciation for tenant improvements and additions, as well as on the amortization of acquired in-place leases and customer relationship values. The assets and liabilities associated with those assets that are held for sale are classified separately on the consolidated balance sheets for the most recent reporting period. Additionally, the operations for the periods presented are classified on the consolidated statements of operations and other comprehensive income 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 financial statements. 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 financial statements. 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 have reason to believe will be uncollectible, including any amounts relating to straight-line rent receivables. Amounts deemed to be uncollectible are written off.

Tenant recoveries are primarily comprised of real estate tax and common area maintenance reimbursement income.

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

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

Consolidation/Equity Accounting Policies. We consolidate the operations of a joint venture if we determine that we are either the primary beneficiary of a variable interest entity or have substantial influence and control of the entity.

The primary beneficiary is the party that absorbs a majority of the entity's expected losses or residual returns. There are significant judgments and estimates involved in determining the primary beneficiary of a variable interest entity or the determination of who has control and influence of the entity. When we consolidate an entity, the assets, liabilities and results of operations of a variable interest entity are included in our consolidated financial statements.

In instances where we are not the primary beneficiary of a variable interest entity or we do not control the joint venture, we use the equity method of accounting. Under the equity method, the operations of a joint venture are not consolidated with our operations but instead our share of operations is reflected as equity in earnings of unconsolidated joint ventures on our consolidated statements of operations and other comprehensive income.

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.

Investment in Securities. We classify our 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 we have 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 December 31, 2007 and 2006 consists of preferred and common stock investments that are classified as available-for-sale securities and 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 determined on a specific identification basis. 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. In accordance with Statement of Financial Accounting Standards No. 115 "Accounting for Certain Investments in Debt and Equity Securities," or SFAS No. 115 and EITF 03-1, The Meaning of Other-than-temporary Impairment and Its Application to Certain Investments, for an impaired security we consider whether we have the ability and intent to hold the investment for a time sufficient to allow for any anticipated recovery in market value 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 year end and forecasted performance of the investee.

Liquidity and Capital Resources

This section describes our balance sheet and discusses our liquidity and capital commitments. Our most liquid asset is cash and cash equivalents which consists of cash and short-term investments. Cash and cash equivalents at December 31, 2007 and 2006 were \$18,378 and \$27,569, respectively. See our discussion of the statements of cash flows for a description of our cash activity during 2007, 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 source from which we generate cash. Other sources of cash include amounts raised from the sale of securities under our Dividend Reinvestment Plan ("DRP"), our draws on the line of credit with KeyBank N.A., which may be limited due to covenant compliance requirements, proceeds from financings secured by our investment properties and earnings we retain that are not distributed to our stockholders. Our line of credit with KeyBank N.A. matures on April 22, 2008. This line of credit has a one year extension option. As of December 31, 2007, we had approximately \$50,000 available under our \$150,000 line of credit. If necessary, such as for new acquisitions, we believe we can generate cash flow by entering into financing

arrangements or joint venture agreements with institutional investors. During the year ended December 31, 2006, we issued \$180,000 aggregate principal amount of 4.625% convertible notes due in 2026. Net proceeds from the convertible notes were used to pay down our line of credit with KeyBank N.A. by \$120,000 and we also repurchased 2,776 shares of our common stock at a price equal to \$18.01 per share (approximately \$50,000 in the aggregate). We use our cash primarily to pay distributions to our stockholders, for operating expenses at our investment properties, for purchasing additional investment properties, joint venture commitments and to repay draws on the line of credit.

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

We invest in marketable securities of other REITs as well as non-REIT entities. We had investments in securities of \$18,074 at December 31, 2007, consisting of preferred and common stock investments. During the year ended December 31, 2007, we recorded accumulated other comprehensive loss of \$3,707 related to these securities.

Realized gains and losses from the sale of available-for-sale securities are specifically identified and determined.

During the year ended December 31, 2007 and 2006, we realized gains on sale of \$150 and 479, respectively.

Additionally, during the year ended December 31, 2007, the Company realized a loss of \$240 related to a decline in value of certain investment securities which were determined to be other than temporary. The overall stock market and REIT stocks have declined over the last few months and although these investment have generated both current income and gain on sale during the year ended December 31, 2007, there is no assurance that existing or future investments will generate any income or gains due to economic uncertainties that may occur in the future and they may generate a loss. Declines in the value of our investment securities may also impact our ability to borrow on margin in the future.

As of December 31, 2007, we owned interests in 152 investment properties, including those owned through our unconsolidated joint ventures. Of the 152 investment properties owned, 37 are currently unencumbered by any indebtedness. These 37 investment properties are wholly owned by us and are consolidated. We generally limit our secured indebtedness to approximately 50% of the original purchase price, or current market value if higher, of the investment properties in the aggregate. These 37 unencumbered investment properties were purchased for an aggregate purchase price of approximately \$239,646 and we believe they would yield at least \$119,823 in additional cash from financing, using this standard, assuming we are able to borrow using these properties as collateral and with acceptable terms and conditions. However, our outstanding debt may be limited under our KeyBank line of credit covenants, which may limit our ability to borrow funds. In the aggregate, all of our 152 investment properties are currently generating sufficient cash flow to pay our operating expenses, debt service requirements and distributions equal to \$0.98 per share on an annual basis.

As of December 31, 2007, the required future principal payments, monthly principal amortization and maturities, on our mortgages payable, line of credit and convertible notes over the next five years and thereafter are as follows:

2008 (a) (b)	\$	195,734
2009		47,383
2010		195,841
2011 (c)		280,573
2012		93,557
Thereafter		73,592
Total	\$	886,680

(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 December 31, 2007, we were in compliance with such covenants.

(b)

Approximately \$95,734 of the Company's mortgages payable mature during 2008. The Company intends to replace these loans with new debt at market terms.

(c)

Included in the debt maturing in 2011 is our convertible notes issued during 2006, which mature in 2026. They are included in 2011 because that is the earliest date these notes can be redeemed.

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The following table summarizes our consolidated statements of cash flows for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Net cash provided by operating activities	\$ 84,378	83,771	86,128
Net cash used in investing activities	\$ (150,752)	(115,936)	(40,500)
Net cash provided by financing activities	\$ 57,183	32,930	(54,332)

Statements of Cash Flows

2007 Compared to 2006

Net cash provided by operating activities during the year ended December 31, 2007 increased \$607, as compared to the year ended December 31, 2006. The increase in cash was from operations generated by properties acquired during 2007 and 2006, subsequent to their acquisitions. This increase is offset by the payment of larger common area maintenance expenses on our investment properties due primarily to increased snow removal costs incurred during the year ended December 31, 2007, as compared to the year ended December 31, 2006.

Net cash used in investing activities increased \$34,816 as we acquired ten investment properties, of which nine were for our joint venture with IREX, during the year ended December 31, 2007 at a cost of \$156,690 and completed \$16,066 in additions to our investment properties, as compared to the acquisition of six investment properties during the year ended December 31, 2006 at a cost of \$85,931 and the completion of \$25,266 in additions to our investment properties. Additionally, we increased our investment in unconsolidated joint ventures by \$34,090, primarily for the purchase of vacant land through our development joint ventures and paid approximately \$2,040 for the purchase of computers and software. Certain payments for computers and software were made to affiliates of The Inland Group, Inc. for development and implementation support. Offsetting this increase in cash used is proceeds received during 2007 for the sale of our interest in one of our unconsolidated joint ventures, the sale of vacant land parcels through other unconsolidated joint ventures and additional distributions from our unconsolidated joint venture activities.

Additionally, we received \$39,692 from the sale of tenant in common ("TIC") interests of properties owned through our joint venture with IREX.

Net cash provided by financing activities during the year ended December 31, 2007 increased \$24,253, as compared to the year ended December 31, 2006. The increase in cash provided by financing activities is primarily due to net loan proceeds of \$37,677 and net proceeds from our line of credit of \$72,000, as compared to net loan proceeds of \$24,245 and a repayment on our line of credit of \$37,000 during the year ended December 31, 2006. Additionally, we received \$4,761 more in proceeds from our DRP during the year ended December 31, 2007. This increase is offset by proceeds received in 2006 for the issuance of our convertible notes. A portion of these proceeds were used to repurchase shares of our common stock and to pay down our line of credit. Additionally, we used less cash in 2007 to repurchase minority interest units.

2006 Compared to 2005

Cash provided by operating activities during the year ended December 31, 2006 decreased \$2,357, as compared to the year ended December 31, 2005. In 2005, the cash provided by operating activities was impacted by the receipt of 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 year ended December 31, 2005. This fee is included in lease termination income on our consolidated statements of operations and other comprehensive income for the year ended December 31, 2005. This decrease in cash provided by operating activities is partially offset by cash flows from operations generated by properties acquired during 2006 and 2005, subsequent to the dates of their acquisitions and distributions received from the operations of our joint ventures.

Net cash used in investing activities increased by \$75,436 as we acquired six investment properties during the year ended December 31, 2006 at a cost of \$85,931, completed \$25,266 in additions to our investment properties and generated \$27,901 of disposition proceeds, as compared to the acquisition of six investment properties during the year ended December 31, 2005 at a cost of \$82,391, additions to our investment properties totaling \$17,799 and generating \$69,134 of disposition proceeds. During the year ended December 31, 2006, we invested approximately \$20,000 to purchase land and one investment property in our joint ventures. Cash used in investing activities also increased due to an increase in our mortgages receivable. The increase in mortgages receivable is due to additional draws on our receivable from Tri-Land Properties, Inc. as well as from our 25% participation in a note receivable with Inland American Real Estate Trust, Inc., an entity formed and sponsored by an affiliate of The Inland Group, Inc.

Additionally, we received less cash distributions from our joint ventures and used less cash to purchase investment securities during the year ended December 31, 2006, as compared to the year ended December 31, 2005.

Net cash provided by financing activities was \$32,930 during the year ended December 31, 2006, as compared to net cash used in financing activities of \$54,332 during the year ended December 31, 2005. This increase in cash is due primarily to the proceeds received from the convertible notes issued during 2006. Additionally, we used less cash to repay debt during the year ended December 31, 2006, as compared to the year ended December 31, 2005. The increase in cash provided by financing activities was offset by the use of additional cash to repurchase shares in relation to our convertible note offering and to purchase the minority interest units in one of our joint ventures.

Additionally, we received less cash from loan proceeds during the year ended December 31, 2006, as compared to the year ended December 31, 2005.

Contractual Obligations

The table below presents our obligations and commitments to make future payments under debt obligations and lease agreements as of the year ended December 31, 2007:

Contractual Obligations	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	\$ 606,680	95,734	343,797	151,000	16,149
Line of Credit	100,000	100,000	-	-	-
Convertible Notes (a)	180,000	-	180,000	-	-
Office Lease	1,232	411	821	-	-
Interest Expense (b)	261,455	40,220	78,680	39,138	103,417

(a)

Our convertible notes issued during 2006 mature in 2026. They are included in 2011 because that is the earliest date these notes can be redeemed.

(b)

Interest expense on the convertible notes was calculated through the first date at which we are able to call the notes.

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Results of Operations

This section describes and compares our results of operations for the three years ended December 31, 2007, 2006 and 2005, respectively. At December 31, 2007, we had ownership interests in 33 single-user properties, 70 Neighborhood Centers, 20 Community Centers, 28 Power Centers and 1 Lifestyle Center. 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 twelve month periods during each year. A total of 121 of our investment properties satisfied these criteria during the periods presented and are referred to herein as "same store" properties. These properties comprise approximately 10.2 million square feet. A total of 15 investment properties, those that have been acquired during the years ended December 31, 2007, 2006 and 2005 are presented as "other investment properties" in the table below. The "same store" investment properties represent approximately 68% of the square footage under management at December 31, 2007. 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 stockholder per weighted average common share for the years ended December 31, 2007, 2006 and 2005 are summarized below:

	2007	2006	2005
Net income available to common stockholders	\$ 43,816	45,184	47,255
Net income available to common stockholders per weighted average common shares basic and diluted	\$ 0.67	0.67	0.70
Weighted average number of common shares outstanding basic	\$ 65,281	67,154	67,244
Weighted average number of common shares outstanding diluted	\$ 65,346	67,223	67,298

Net income decreased \$1,368 for the year ended December 31, 2007, as compared to the year ended December 31, 2006. Net income for the year ended December 31, 2006 was impacted by gains on sale of investment properties that exceeded gains during the year ended December 31, 2007 by \$3,511. Additionally interest expense for the year ended December 31, 2007 increased compared to the year ended December 31, 2006 due primarily to interest on our convertible notes. The decreases in net income for the year ended December 31, 2007 are partially offset by increases in fee income, gain on sale of joint venture interests and vacant land from our unconsolidated joint ventures.

Net income also decreased for the year ended December 31, 2006, as compared to the year ended December 31, 2005. The decrease in net income is primarily due to additional non-cash depreciation and amortization expense on a larger portfolio of properties. Additionally, the decrease is due to a large one-time lease termination fee received during the year ended December 31, 2005 in comparison to minimal fees received during the year ended December 31, 2006.

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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, amortization of lease intangibles, interest, depreciation, amortization and bad debt expense for the years ended December 31, 2007, 2006 and 2005 along with reconciliation to income from continuing operations, calculated in accordance with U.S. GAAP.

	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Rental income and tenant recoveries:			
"Same store" investment properties, 121 properties			
Rental income	\$ 118,955	118,755	117,646
Tenant recovery income	48,001	44,654	45,016
Other property income	3,229	1,168	481
"Other investment properties"			
Rental income	10,932	7,710	5,612
Tenant recovery income	2,776	1,809	1,806
Other property income	72	3	6,107
Total rental income and tenant recoveries	\$ 183,965	174,099	176,668
Property operating expenses:			
"Same store" investment properties, 121 properties			
Property operating expenses	\$ 24,018	18,696	20,612
Real estate tax expense	29,923	30,859	29,796
"Other investment properties"			
Property operating expenses	1,380	1,009	1,233
Real estate tax expense	1,573	1,104	1,316
Total property operating expenses	\$ 56,894	51,668	52,957
Property net operating income			
"Same store" investment properties	\$ 116,244	115,022	112,735
"Other investment properties"	10,827	7,409	10,976
Total property net operating income	\$ 127,071	122,431	123,711
Other income:			
Straight-line income	551	1,008	580
Amortization of lease intangibles	457	653	948
Other income	5,151	5,696	3,087
Fee income from unconsolidated joint ventures	4,386	2,475	2,011
Gain on sale of investment properties	174	617	68

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Gain on extinguishment of debt	319	-	-
Gain on sale of joint venture interest	2,925	-	-
Other expenses:			
Income tax expense of taxable REIT subsidiary	(633)	-	-
Bad debt expense	(1,104)	(855)	(1,237)
Depreciation and amortization	(42,381)	(40,777)	(39,055)
Provision for asset impairment	(362)	-	-
General and administrative expenses	(11,903)	(10,722)	(9,066)
Interest expense	(47,970)	(44,413)	(40,052)
Minority interest	(444)	(864)	(850)
Equity in earnings of unconsolidated joint ventures	4,832	2,873	4,591
Income from continuing operations	\$ 41,069	38,122	44,736

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On a "same store" basis (comparing the results of operations of the investment properties owned during the year ended December 31, 2007, with the results of the same investment properties owned during the year ended December 31, 2006), property net operating income increased by \$1,222 with total rental income, tenant recovery income and other property income increasing by \$5,608 and total property operating expenses increasing by \$4,386.

Total rental income, tenant recovery income and other property income for the years ended December 31, 2007 and 2006 were \$183,965 and \$174,099, respectively. The primary reasons for the increase in rental and additional rental income for the year ended December 31, 2007, as compared to the year ended December 31, 2006 was positive leasing spreads on our "same store" properties and income received on our "other investment properties."

Additionally, tenant recovery income and other property income increased during 2007. Tenant recovery income increased as a result of higher property operating expenses during 2007. Other property income is comprised of lease termination fees, late fees and costs recovered on expenses directly related to specific tenants.

In comparing the results of operations from the "same store" properties during the year ended December 31, 2006 and 2005, property net operating income increased by \$2,287 with total rental income, tenant recovery income and other property income increasing by \$1,434 and total property operating expenses decreasing by \$853.

Total rental income, tenant recovery income and other property income for the years ended December 31, 2006 and 2005 were \$174,099 and \$176,668, respectively. The primary reason for this decrease in income was the receipt of a lease termination fee of \$6,100 from Dominick's Finer Foods with respect to the lease at their location in Highland Park, Illinois, in 2005. Partially offsetting this decrease in income are increases as a result of positive leasing spreads on our "same store" properties and income received on our "other investment properties."

The following table presents our top ten tenants based on percentage of total square footage, along with their respective annual base rent, percentage of annual base rent and approximate receivable balance as of December 31, 2007:

Tenant Name (a)	Percentage of Total Square Footage	Annual Base Rent	Percentage of Annual Base Rent	Receivable Balance at December 31, 2007
Supervalu Inc.	6.93%	\$ 10,681	5.86%	\$ 390
Dominick's Finer Foods	4.02%	7,027	3.86%	389
TJX Companies, Inc.	3.27%	4,255	2.34%	(42)
FMC Technologies	3.11%	4,160	2.28%	-
Roundy's	2.96%	4,295	2.36%	10
K-Mart	2.50%	1,434	0.79%	25
Petsmart	1.79%	3,452	1.90%	108
Kohl's Department Stores	1.73%	2,102	1.15%	6
Kroger	1.58%	1,794	0.98%	141
Office Depot	1.48%	2,547	1.40%	364

Total	29.37%	\$	41,747	22.92%	\$	1,391
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(a) The table above includes properties owned through our unconsolidated joint ventures.

In February 2008, Wickes Furniture, a tenant at five of our investment properties filed for bankruptcy and intends to liquidate. Two of the locations are at investment properties owned through our unconsolidated joint ventures. One location in Minnesota closed in 2007 and the other four Illinois locations are still open. Wickes Furniture represented approximately one percent of our total base rent in 2007. We are actively marketing these spaces to re-lease them if vacated by the tenant in a timely fashion in order to limit the potential lost revenues.

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Total property operating expenses for the year ended December 31, 2007 and 2006 were \$56,894 and \$51,668, respectively. The primary reason for the increase in these expenses is due to higher snow removal costs in both the first and fourth quarters of 2007, as compared to 2006. Additionally, payroll and other payroll related items as well as expenses recovered directly from specific tenants increasing during the year ended December, 31, 2007, as compared to the year ended December 31, 2006.

Total property operating expenses for the year ended December 31, 2006 and 2005 were \$51,668 and \$52,957, respectively. The primary reason for the decrease is 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. Additionally, during the year ended December 31, 2006, we entered into an agreement with a limited liability company formed as an insurance association captive in order to reduce our premium paid for our annual insurance policies.

General and administrative expenses increased \$1,181 for the year ended December 31, 2007, as compared to the year ended December 31, 2006. This increase is due to an increase in salaries and other payroll related items, bonuses, data processing costs and costs incurred on potential transactions that we are no longer pursuing. Additionally, our conference expenses were higher during the year ended December 31, 2007, as compared to the year ended December 31, 2006 due to additional costs for the annual International Council of Shopping Centers convention (an industry trade show), which included more space to accommodate our new booth.

General and administrative expenses increased approximately \$1,656 for the year ended December 31, 2006, as compared to the year ended December 31, 2005. This increase is due primarily to an increase in salaries and other payroll related items, board of director fees and professional fees related to acquisition activity during 2006.

Other income decreased \$545 for the year ended December 31, 2007, as compared to the year ended December 31, 2006. This is due to a decrease in dividend income and gains on sale of our investment securities.

Other income increased \$2,609 for the year ended December 31, 2006, as compared to the year ended December 31, 2005. Interest income on our mortgages receivable increased due to higher outstanding balances on our loan to Tri-Land Properties, Inc. as well as income received on our 25% participation in a note receivable from Inland American Real Estate Trust, Inc., an entity formed and sponsored by an affiliate of The Inland Group, Inc. Additionally, dividend income received on our investment in securities and gains on the sale of our investment securities increased for the year ended December 31, 2006, as compared to the year ended December 31, 2005.

Fee income from unconsolidated joint ventures increased \$1,911 for the year ended December 31, 2007, as compared to the year ended December 31, 2006. This increase is due to acquisition fees earned on the properties acquired by our joint venture with Inland Real Estate Exchange Corporation ("IREX") and management fees earned on an increased number of properties owned through our unconsolidated joint ventures.

Fee income from unconsolidated joint ventures increased \$464 for the year ended December 31, 2006, as compared to the year ended December 31, 2005. This increase is due to increased management fees earned on an increased number of properties owned through our unconsolidated joint ventures.

Interest expense increased \$3,557 for the year ended December 31, 2007, as compared to the year ended December 31, 2006. This increase is due to interest due for the convertible notes issued in November 2006. We issued those convertible notes in order to take advantage of the low fixed interest rate. These notes are fixed at a rate of 4.625% per annum. Offsetting this increase in interest expense is a decrease in interest on our mortgages payable and line of credit due to lower balances outstanding during each year.

Interest expense increased approximately \$4,361 for the year ended December 31, 2006, as compared to the year ended December 31, 2005. This increase is due in most part to interest paid on our line of credit with KeyBank N.A. during the year ended December 31, 2006. This is the result of higher balances maintained throughout the year as well as a higher rate charged on the outstanding balances. Additionally, interest expense increased due to the convertible notes that we issued during 2006.

Equity in earnings of unconsolidated joint ventures increased \$1,959 for the year ended December 31, 2007, as compared to the year ended December 31, 2006. This increase is due in most part to income generated from the properties acquired through our joint venture with IREX.

Equity in earnings of unconsolidated joint ventures decreased approximately \$1,718 for the year ended December 31, 2006, as compared to the year ended December 31, 2005. This decrease is due in most part to our share of the non-cash expenses related to the properties held in our joint ventures. This decrease is offset by increases in operations due to properties newly acquired by the joint ventures during the year ended December 31, 2006.

Captive Insurance

We are a member of a limited liability company formed as an insurance association captive (the "Captive"), which is owned in equal proportions with two other REITs sponsored by an affiliate of The Inland Group, Inc., Inland American Real Estate Trust, Inc. and Inland Western Retail Real Estate Trust, Inc., and us. The Captive is serviced by Inland Risk and Insurance Management, Inc., also an affiliate of The Inland Group, Inc. The Captive was formed to initially insure/reimburse the members' deductible obligations for the first \$100 of property insurance and \$100 of general liability insurance. We entered into the Captive to stabilize our insurance costs, manage our exposures and recoup expenses through the functions of the captive program. This entity is considered to be a variable interest entity ("VIE") as defined in FIN 46R and we are not considered the primary beneficiary. This investment is accounted for using the equity method of accounting. During the year ended December 31, 2007, we were not required to make additional capital contributions to this entity.

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 losses or residual returns. The third parties' interests in these consolidated entities are reflected as minority interest in the accompanying consolidated financial statements. All inter-company balances and transactions have been eliminated in consolidation.

Off Balance Sheet Arrangements

Unconsolidated Real Estate Joint Ventures

Unconsolidated joint ventures are those where we are not the primary beneficiary of a VIE or have substantial influence over but do not control the entity. We account for our interest in these ventures using the equity method of accounting. Our ownership percentage and related investment in each joint venture is summarized in the following table.

Venture Partner	Company's Ownership Percentage at	Investment in and advances to unconsolidated	Investment in and advances to unconsolidated
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	December 31, 2007	joint ventures at December 31, 2007	joint ventures at December 31, 2006
Crow Holdings Managers, LLC	-	\$ -	1,219
New York State Teachers' Retirement System	50%	67,101	64,556
North American Real Estate, Inc.	45%	6,861	4,350
Oak Property and Casualty	33%	700	227
TMK Development	40%	5,580	-
Paradise Development Group, Inc.	15%	5,560	-
Pine Tree Institutional Realty, LLC	85%	9,684	-
Tucker Development Corporation	48%	7,028	-
Inland Real Estate Exchange Corporation	50%	1,438	4,538
Investment in and advances to joint ventures		\$ 103,952	74,890

Our proportionate share of the earnings or losses from these ventures is reflected as equity in earnings of unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. 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 and other comprehensive income. During the year ended December 31, 2007, we earned \$4,386 in fee income from our unconsolidated joint ventures, as compared to \$2,475 and \$2,011 for the years ended December 31, 2006 and 2005, respectively. This fee income increased due in most part to acquisition fees on the properties purchased for our joint venture with IREX as well as increased management fees on an increased number of properties in our unconsolidated joint ventures. 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 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 years ended December 31, 2007, 2006 and 2005 we recorded \$1,428, \$1,380 and \$1,393, respectively, of amortization of this basis difference.

We guaranty certain portions of joint venture debt. In accordance with FIN 45, we are required to estimate the fair value of these guarantees and record a corresponding liability. We have determined these amounts were immaterial as of December 31, 2007 and have not recorded a liability related to these guarantees on the accompanying consolidated balance sheets.

During the year ended December 31, 2007, we sold our interest in our joint venture with Crow Holdings Managers, LLC for approximately \$3,500. This sale of joint venture interest resulted in a gain on our investment of approximately \$2,228.

On March 7, 2007, we sold, through our joint venture with TMK Development, an additional parcel of land to a third party for approximately \$5,400. As a result of the sale and the return of capital we received, we re-evaluated the criteria for primary beneficiaries under FIN 46R and determined that we are no longer the primary beneficiary in this variable interest entity and therefore, deconsolidated the joint venture. The joint venture recorded a gain on sale of approximately \$1,181, which is recorded in equity in earnings of unconsolidated joint ventures.

On November 16, 2007, we sold, through our joint venture with Pine Tree Institutional Realty LLC, a parcel of land to a third party for approximately \$4,500. The joint venture recorded a gain on sale of approximately \$240, which is recorded in equity in earnings of unconsolidated joint ventures.

During the year ended December 31, 2007, we acquired a total of nine investment properties on behalf of our joint venture with IREX, comprising approximately 982,000 square feet with a purchase price of approximately \$150,000. The joint venture is in various stages of selling these properties to TIC investors. During the year ended December 31, 2007, we earned acquisition and management fees for these properties which are included in fee income from unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. Additionally, in conjunction with the sales to the TIC investors, we recorded approximately \$697 in gains,

which are included in gain on sale of joint venture interests on the accompanying consolidated statements of operations and other comprehensive income.

In September 2007, we entered into three interest rate swap contracts through our unconsolidated joint ventures to limit our exposure to variable interest rates. Upon entering into these contracts, we did not qualify for hedge accounting. Our pro rata share of the incurred losses was \$368 from these contracts and are included in equity in earnings of unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. In December 2007, we redesignated these swap contacts and then qualified for hedge accounting. As a result, we recorded our pro rata share of unrealized losses in the amount of \$81, which is included as a component of other comprehensive income on the accompanying consolidated statements of operations and other comprehensive income and as a component of investment in and advances to joint ventures in the accompanying consolidated balance sheets. The following table presents pertinent information related to these interest rate swap contracts.

<i>Notional Amount</i>	<i>Maturity Date</i>	<i>Company's pro rata share</i>	<i>Total realized loss</i>	<i>Total unrealized loss</i>
\$ 20,329	February 27, 2009	45%	\$ (210)	(46)
10,000	March 10, 2009	45%	(107)	(24)
21,000	March 1, 2010	48%	(469)	(104)
\$ 51,329			\$ (786)	(174)

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 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:

		For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Net income available to common stockholders	\$	43,816	45,184	47,255
Gain on sale of investment properties, net of minority interest (a)		(2,506)	(6,242)	(1,152)
Equity in depreciation of unconsolidated joint ventures		10,129	9,398	4,261
Amortization on in-place lease intangibles		3,180	2,925	2,826
Amortization on leasing commissions		799	766	700
Depreciation, net of minority interest		38,253	37,132	35,621
Funds From Operations		93,671	89,163	89,511
Net income available to common stockholders per weighted average common share, basic and diluted	\$	0.67	0.67	0.70
Funds From Operations, per weighted average common share, basic and diluted	\$	1.43	1.33	1.33

Weighted average number of common shares outstanding, basic	65,281	67,154	67,244
Weighted average number of common shares outstanding, diluted	65,346	67,223	67,298

(a)

Gains on sale of non-operating property are excluded from this adjustment.

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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; and (4) gain (loss) on non-operating property. 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.

EBITDA	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Income from continuing operations	\$ 41,069	38,122	44,736
Gain on non-operating property	(174)	(617)	(68)
Income tax expense of taxable REIT subsidiary	633	-	-
Income from discontinued operations	242	1,045	1,402
Interest expense	47,970	44,413	40,052
Interest expense associated with discontinued operations	243	548	685
Interest expense associated with unconsolidated joint ventures	7,734	6,975	4,271
Depreciation and amortization	42,381	40,777	39,055
Depreciation and amortization associated with discontinued operations	180	617	968
Depreciation and amortization associated with unconsolidated ventures	10,130	9,399	3,127
EBITDA	\$ 150,408	141,279	134,228
Total interest expense	\$ 55,947	51,936	45,008
EBITDA: Interest expense coverage ratio	2.7 x	2.7 x	3.0 x

Impact of Recent Accounting Principles

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS 157"), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for

measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. SFAS 157 applies to accounting pronouncements that require or permit fair value measurements, except for share-based payment transactions under SFAS 123R. We are required to apply the guidance of SFAS 157 beginning January 1, 2008.

However, in November 2007 the effective date of SFAS 157 as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis was deferred for one year. The adoption of SFAS 157 is not expected to have a material effect on our consolidated financial statements.

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

The FASB has issued proposed FASB Staff Position No. APB-14a, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (the proposed FSP) that would require, if ratified, separate accounting for the debt and equity components of convertible instruments. The proposed FSP would require that the value assigned to the debt component would be the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The debt would subsequently be accreted to its par value over its expected life with a rate of interest being reflected in earnings that reflects the market rate at issuance. The proposed FSP, if ratified in the form expected, would be effective January 1, 2008 and would be applied retrospectively to both new and existing convertible instruments, including the convertible notes that we issued in November 2006.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R ("SFAS 141R"), Business Combinations, which requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at "full fair value." Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for periods beginning on or after December 15, 2008. We are currently evaluating the effect of SFAS 141R.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 ("SFAS 160"), Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. In addition, the statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for periods beginning on or after December 15, 2008. We are currently evaluating the effect of SFAS 160.

Inflation

Our long term leases contain provisions to mitigate the adverse impact of inflation on our operating results. Such provisions include clauses entitling us to receive scheduled base rent increases and base rent increases based upon the consumer price index. In addition, the majority of our leases require tenants to pay operating expenses, including maintenance, real estate taxes, insurance and utilities, thereby reducing our exposure to increases in cost and operating expenses resulting from inflation.

Subsequent Events

On January 10, 2008, we sold, through our joint venture with TMK Development, LTD, approximately 1.2 acres of vacant land for \$1,500 to Fifth Third Bank.

On January 16, 2008, we purchased Fox Run Square from an unaffiliated third party for \$23,150. The purchase price was funded using cash and cash equivalents. The property is located in Naperville, Illinois and contains 143,512 square feet of leasable area. Its major tenants are Dominick's Finer Foods and Ace Hardware.

On January, 17, 2008, we paid a cash distribution of \$0.08167 per share on the outstanding shares of our common stock to stockholders of record at the close of business on December 31, 2007.

On January 17, 2008, we announced that we had declared a cash distribution of \$0.08167 per share on the outstanding shares of our common stock. This distribution was payable on February 19, 2008 to the stockholders of record at the close of business on January 31, 2008.

On February 13, 2008, we sold an investment property in Decatur, Illinois, previously leased to Walgreens, for \$360.

On February, 19, 2008, we paid a cash distribution of \$0.08167 per share on the outstanding shares of our common stock to stockholders of record at the close of business on January 31, 2008.

On February 19, 2008, we announced that we had declared a cash distribution of \$0.08167 per share on the outstanding shares of our common stock. This distribution is payable on March 17, 2008 to the stockholders of record at the close of business on February 29, 2008.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As of December 31, 2007, 2006 and 2005 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 terminates or is sold, the gain or loss is recognized. We will only enter into derivative transactions that satisfy the aforementioned criteria.

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 that are scheduled to mature in the next year or two are evaluated for possible early refinancing and 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, 2012 and thereafter and weighted average interest rates for the debt maturing in each specified period.

	2008	2009	2010	2011	2012	Thereafter	Total
Fixed rate debt	\$ 95,734	40,018	167,499	280,573	93,557	67,392	744,773
Weighted average interest rate	6.50%	5.86%	4.77%	4.61%	5.50%	5.65%	-
Variable rate debt	100,000	7,365	28,342	-	-	6,200	141,907
Weighted average interest rate	6.39%	7.03%	6.49%	-	-	3.83%	-

The table above does not reflect indebtedness incurred after December 31, 2007. 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, fixed rate debt that matures and needs to be refinanced and hedging strategies used to reduce the impact of any increases in rates.

The fair value of debt is the amount at which the instrument could be exchanged in a current transaction between willing parties. The fair value of our debt is estimated to be \$141,907 for debt which bears interest at variable rates and \$724,623 for debt which bear interest at fixed rates. We estimate the fair value of our debt 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 December 31, 2007, approximately \$141,907, or 16%, of our debt has variable interest rates averaging 6.33%. 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 \$355 for the year ended December 31, 2007.

Item 8. Financial Statements and Supplementary Data

INLAND REAL ESTATE CORPORATION

(a Maryland corporation)

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Schedules not filed:

All schedules other than those indicated in the index have been omitted as the required information is not applicable or the information is presented in the financial statements or related notes.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Inland Real Estate Corporation:

We have audited the accompanying consolidated financial statements of Inland Real Estate Corporation (the Company) as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we have also audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Inland Real Estate Corporation as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedule when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company ' s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28 , 2008 expressed an unqualified opinion on the effectiveness of the Company ' s internal control over financial reporting.

KPMG LLP

Chicago, Illinois

February 28, 2008

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders

Inland Real Estate Company:

We have audited Inland Real Estate Corporation's (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Inland Real Estate Corporation as of December 31, 2007 and 2006, and the related consolidated statements of operations and other comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated February 28, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Chicago, Illinois

February 28, 2008

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

	December 31, 2007	December 31, 2006
Assets:		
Investment properties:		
Land	\$ 347,804	337,896
Construction in progress	1,573	434
Building and improvements	970,231	925,316
	1,319,608	1,263,646
Less accumulated depreciation	250,433	218,808
Net investment properties	1,069,175	1,044,838
Cash and cash equivalents	18,378	27,569
Investment in securities	18,074	16,777
Accounts and mortgage receivable	63,986	61,516
Investment in and advances to unconsolidated joint ventures	103,952	74,890
Acquired lease intangibles, net	27,409	24,220
Deferred costs, net	9,592	10,745
Other assets	10,753	8,606
Total assets	\$ 1,321,319	1,269,161
Liabilities:		
Accounts payable and accrued expenses	\$ 35,590	33,666
Acquired below market lease intangibles, net	3,429	4,537
Distributions payable	5,363	5,205
Mortgages payable	606,680	622,280
Line of credit	100,000	28,000
Convertible notes	180,000	180,000
Other liabilities	24,404	15,425
Total liabilities	955,466	889,113
Commitments and contingencies		

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Minority interest	2,494	3,065
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 6,000 Shares authorized; none issued and outstanding at December 31, 2007 and 2006	-	-
Common stock, \$0.01 par value, 500,000 Shares authorized; 65,669 and 65,059 Shares issued and outstanding at December 31, 2007 and 2006, respectively	657	650
Additional paid-in capital (net of offering costs of \$58,816)	615,298	605,133
Accumulated distributions in excess of net income	(248,262)	(228,254)
Accumulated other comprehensive loss	(4,334)	(546)
Total stockholders' equity	363,359	376,983
Total liabilities and stockholders' equity	\$ 1,321,319	1,269,161

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

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Operations and Other Comprehensive Income
For the years ended December 31, 2007, 2006 and 2005
(In thousands except per share data)

	2007	2006	2005
Revenues			
Rental income	\$ 130,895	128,126	124,786
Tenant recoveries	50,777	46,463	46,822
Other property income	3,301	1,171	6,588
Fee income from unconsolidated joint ventures	4,386	2,475	2,011
Total revenues	189,359	178,235	180,207
Expenses:			
Property operating expenses	26,502	20,560	23,082
Real estate tax expense	31,496	31,963	31,112
Depreciation and amortization	42,381	40,777	39,055
Provision for asset impairment	362	-	-
General and administrative expenses	11,903	10,722	9,066
Total expenses	112,644	104,022	102,315
Operating income	76,715	74,213	77,892
Other income	5,151	5,696	3,087
Gain on sale of investment properties	174	617	68
Gain on sale of joint venture interest	2,925	-	-
Gain on extinguishment of debt	319	-	-
Interest expense	(47,970)	(44,413)	(40,052)
Minority interest	(444)	(864)	(850)
Income before equity in earnings of unconsolidated joint ventures, income tax expense of taxable REIT subsidiary and discontinued operations	36,870	35,249	40,145
Income tax expense of taxable REIT subsidiary	(633)	-	-
Equity in earnings on unconsolidated joint ventures	4,832	2,873	4,591
Income from continuing operations	41,069	38,122	44,736
Income from discontinued operations	2,747	7,062	2,519
Net income available to common stockholders	43,816	45,184	47,255

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Other comprehensive income:

Unrealized gain (loss) on investment securities	(3,707)	(839)	179
Unrealized loss on derivative instruments	(81)	-	-

Comprehensive income	\$ 40,028	44,345	47,434
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Basic and diluted earnings available to common shares per weighted average common share:

Income from continuing operations	\$ 0.63	0.57	0.67
Discontinued operations	0.04	0.10	0.03
Net income available to common stockholders per weighted average common share basic and diluted	\$ 0.67	0.67	0.70

Weighted average number of common shares outstanding basic	65,281	67,154	67,244
Weighted average number of common shares outstanding diluted	65,346	67,223	67,298

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

INLAND REAL ESTATE CORPORATION
Consolidated Statements of Stockholders' Equity
For the years ended December 31, 2007, 2006 and 2005
(In thousands except per share data)

	2007	2006	2005
<i>Number of shares</i>			
Balance at beginning of year	65,059	67,502	67,025
Shares issued from DRP	592	315	435
Restricted shares	11	16	30
Exercise of stock options	4	2	14
Issuance of shares	3	-	-
Repurchase of shares	-	(2,776)	(2)
Balance at end of year	65,669	65,059	67,502
<i>Common Stock</i>			
Balance at beginning of year	\$ 650	675	670
Proceeds from DRP	7	3	5
Stock compensation	-	-	-
Repurchase of shares	-	(28)	-
Balance at end of year	657	650	675
<i>Additional Paid-in capital</i>			
Balance at beginning of year	605,133	649,797	643,698
Proceeds from DRP	9,771	5,014	5,805
Amortization of stock compensation	302	267	178
Exercise of stock options	25	23	135
Issuance of shares	67	-	-
Repurchase of shares	-	(49,968)	(19)
Balance at end of year	615,298	605,133	649,797
<i>Accumulated distributions in excess of net income</i>			
Balance at beginning of year	(228,254)	(208,947)	(191,990)
Net income available to common stockholders	43,816	45,184	47,255
Distributions declared	(63,824)	(64,491)	(64,212)
Balance at end of year	(248,262)	(228,254)	(208,947)
<i>Accumulated other comprehensive income</i>			
Balance at beginning of year	(546)	293	114
Other comprehensive income (loss)	(3,788)	(839)	179

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Balance at end of year	(4,334)	(546)	293
<i>Total stockholders' equity</i>	\$ 363,359	376,983	441,818

The accompanying notes are an integral part of these financial statements

INLAND REAL ESTATE CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2007, 2006 and 2005

(In thousands)

	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 43,816	45,184	47,255
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for asset impairment	362	-	-
Depreciation and amortization	42,561	41,407	40,023
Non real estate depreciation and amortization	446	154	28
Amortization of deferred stock compensation	302	267	179
Amortization on acquired above market leases	652	729	880
Amortization on acquired below market leases	(1,109)	(1,383)	(1,827)
Gain on sale of investment properties	(2,680)	(6,634)	(1,185)
Gain on extinguishment of debt	(319)	-	-
Realized gain on investment securities	(150)	(479)	(11)
Realized loss on investment securities	240	-	-
Minority interest	444	864	850
Equity in earnings from unconsolidated ventures	(4,832)	(2,873)	(4,591)
Gain on sale of joint venture interest	(2,925)	-	-
Straight line rental income	(681)	(996)	(616)
Provision for doubtful accounts	(1,312)	(758)	45
Amortization of loan fees	2,081	1,535	1,633
Distributions from unconsolidated joint ventures	6,449	7,564	2,492
Mortgage receivable	(563)	(676)	(477)
Changes in assets and liabilities:			
Restricted cash	(324)	(551)	40
Accounts and rents receivable	(6,591)	(508)	(705)
Deposits and other assets	(378)	(854)	603
Accounts payable and accrued expenses	4,906	(844)	1,210
Accrued interest payable	202	1,257	129
Accrued real estate taxes	375	1,479	565

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Security and other deposits	39	43	169
Prepaid rents and unearned income	3,367	(156)	(561)
Net cash provided by operating activities	84,378	83,771	86,128

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

INLAND REAL ESTATE CORPORATION

Consolidated Statements of Cash Flows

For the years ended December 31, 2007, 2006 and 2005

(In thousands)

	2007	2006	2005
Cash flows from investing activities:			
Restricted cash	\$ (630)	556	137
Escrows held for others	(5)	(32)	(775)
Proceeds from sale of interest in joint venture	3,448	-	500
Purchase of investment securities	(9,484)	(1,456)	(14,915)
Sale of investment securities	4,390	3,549	1,952
Additions to investment properties, net of amounts payable	(16,066)	(25,266)	(17,799)
Rental income under master lease agreements	28	(141)	54
Purchase of investment properties	(156,690)	(85,931)	(82,391)
Purchase of furniture, fixtures and equipment	(40)	(70)	(113)
Purchase of computers and software	(2,040)	-	-
Proceeds from sale of investment properties, net	3,699	27,901	69,134
Distributions from unconsolidated joint ventures	32,793	3,160	6,341
Proceeds from sale of TIC interests	39,692	-	-
Investment in unconsolidated joint ventures	(55,172)	(21,082)	(1,561)
Mortgages receivable	6,415	(15,766)	-
Leasing fees	(1,090)	(1,358)	(1,064)
Net cash used in investing activities	(150,752)	(115,936)	(40,500)
Cash flows from financing activities:			
Proceeds from the DRP	9,778	5,017	5,810
Proceeds from exercise of options	25	23	135
Issuance of shares	66	-	-
Repurchase of shares	-	(49,996)	(19)
Purchase of minority interest, net	(126)	(15,187)	(101)
Loan proceeds	93,303	41,394	134,366
Proceeds from unsecured line of credit	140,000	-	-
Repayments on unsecured line of credit	(68,000)	(37,000)	(20,000)

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Convertible notes	-	180,000	-
Loan fees	(698)	(4,552)	(2,970)
Other current liabilities	3,653	(2,848)	9,242
Distributions paid	(63,666)	(66,047)	(66,291)
Distributions to minority interest partners	(752)		
Payoff of debt	(55,626)	(17,149)	(113,897)
Principal payments of debt	(774)	(725)	(607)
Net cash provided by (used in) financing activities	57,183	32,930	(54,332)
Net increase (decrease) in cash and cash equivalents	(9,191)	765	(8,704)
Cash and cash equivalents at beginning of year	27,569	26,804	35,508
Cash and cash equivalents at end of year	\$ 18,378	27,569	26,804

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

INLAND REAL ESTATE CORPORATION**Consolidated Statements of Cash Flows****For the years ended December 31, 2007, 2006 and 2005****(In thousands)**

	2007	2006	2005
Supplemental schedule of noncash investing and financing activities:			
Purchase of investment properties	\$ (162,490)	(104,474)	(144,016)
Assumption of mortgage debt	5,800	18,543	61,625
	\$ (156,690)	(85,931)	(82,391)
Proceeds from sale of investment properties	\$ 13,182	-	-
Transfer of mortgage debt	(9,483)	-	-
	\$ 3,699	-	-
Contribution of properties and other assets, net of accumulated depreciation	\$ -	27,544	37,782
Debt associated with contribution of properties	-	(19,300)	(16,789)
	\$ -	8,244	20,993
Distributions payable	\$ 5,363	5,205	5,401
Cash paid for interest	\$ 47,773	42,250	43,948

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

INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

December 31, 2007

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

(1)

Organization and Basis of Accounting

Inland Real Estate Corporation (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.

The Company is now permitted to participate in certain activities from which it was previously precluded in order to maintain its qualifications as a REIT, so long as these activities are conducted in entities which elect to be treated as taxable REIT subsidiaries (TRS) under the Code. In 2005, the Company formed a TRS, Inland Venture Corporation (IVC), to be a partner in many of its unconsolidated joint ventures. As such, the Company is subject to federal and state income taxes on the income it receives from the activities of IVC. The provision for income tax relates to the taxable income of IVC and represents an effective federal and state income tax rate of 38%.

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

Certain reclassifications were made to the 2006 and 2005 financial statements to conform to the 2007 presentation.

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

The Company considers all demand deposits, money market accounts and investments in certificates of deposit and repurchase agreements purchased with a maturity of three months or less, at the date of purchase, to be cash equivalents. The Company maintains its cash and cash equivalents at financial institutions. The combined account balances at one or more institutions periodically exceed the Federal Depository Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposits 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

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(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 does not have any amounts allocated to customer relationships as of December 31, 2007 and 2006.

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 \$1,636 and \$93 of capitalized interest related to certain of its development joint ventures for the years ended December 31, 2007 and 2006, respectively. No capitalized interest was recorded during the year ended December 31, 2005.

Amortization pertaining to the above market lease intangibles of \$652, \$729 and \$880 was recorded as a reduction to rental income for the years ended December 31, 2007, 2006 and 2005, respectively. Amortization pertaining to the below market lease intangibles of \$1,109, \$1,383 and \$1,827 was recorded as an increase to rental income for the years ended December 31, 2007, 2006 and 2005, respectively. The Company incurred amortization expense pertaining to acquired in-place lease intangibles of \$2,787, \$3,002 and \$2,826 for the years ended December 31, 2007, 2006 and 2005, respectively. In the accompanying consolidated balance sheets, acquired lease intangibles is presented net of accumulated amortization of \$11,702 and \$8,984 for the years ended December 31, 2007 and 2006, respectively and acquired below market lease intangibles are net of accumulated amortization of \$3,300 and \$3,535 for the years ended December 31, 2007 and 2006, respectively. The table below presents the amounts to be recorded for the amortization of intangibles over the next five years:

Year	Amortization of Above Market Lease Intangibles	Amortization of Below market Lease Intangibles	Amortization of In Place Lease Intangibles	Total
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2008	462	(635)	2,693	2,520
2009	410	(474)	2,689	2,625
2010	392	(296)	2,681	2,777
2011	330	(289)	2,666	2,707
2012	267	(283)	2,638	2,622
Total	1,861	(1,977)	13,367	13,251

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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. During the year ended December 31, 2007, the Company recorded an impairment loss of \$362 related to a 13,500 square foot single-user retail center located in Decatur, Illinois. No such losses were required or recorded in the accompanying financial statements as of and for the years ended December 31, 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. Leasing fees and loan fees are presented in the accompanying consolidated balance sheets as deferred costs. Deferred costs are presented net of accumulated amortization of \$7,092 and \$5,679 for the years ended December 31, 2007 and 2006, respectively.

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

The fair value of debt is the amount at which the instrument could be exchanged in a current transaction between willing parties. The fair value of the Company's debt is estimated to be \$141,907 for debt which bears interest at variable rates and \$724,623 for debt which bears interest at fixed rates. The Company estimates the fair value of its debt by discounting the future cash flows of each instrument at rates currently offered for similar debt instruments of comparable maturities by the Company's lenders.

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 December 31, 2007 and 2006, the Company held letters of credit for tenant security deposits totaling approximately \$1,120 and \$418, respectively.

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.

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The Company, from time to time, receives 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 the Company 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 December 31, 2007, the Company had one investment property subject to a master lease agreement.

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.

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 years presented.

As of December 31, 2007 and 2006 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 and losses related to the derivative financial instrument would be deferred and amortized over the terms of the hedged instrument. 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.

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

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

INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

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Recent Accounting Principles

In September 2006, the Financial Accounting Standard Board ("FASB") issued Statement of Financial Accounting Standard ("SFAS 157"), Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in U.S. GAAP and expands disclosures about fair value measurements. SFAS 157 applies to accounting pronouncements that require or permit fair value measurements, except for share-based payment transactions under SFAS 123R. The Company is required to apply the guidance of SFAS 157 beginning January 1, 2008. However, in November 2007 the effective date of SFAS 157 as it relates to fair value measurement requirements for nonfinancial assets and liabilities that are not remeasured at fair value on a recurring basis was deferred for one year. The adoption of SFAS 157 is not expected to have a material effect on the Company's consolidated financial statements.

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

The FASB has issued proposed FASB Staff Position No. APB-14a, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) (the proposed FSP) that would require, if ratified, separate accounting for the debt and equity components of convertible instruments. The proposed FSP would require that the value assigned to the debt component would be the estimated fair value of a similar bond without the conversion feature, which would result in the debt being recorded at a discount. The debt would subsequently be accreted to its par value over its expected life with a rate of interest being reflected in earnings that reflects the market rate at issuance. The proposed FSP, if ratified in the form expected, would be effective January 1, 2008 and would be applied retrospectively to both new and existing convertible instruments, including the convertible notes that the Company issued in November 2006.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141R ("SFAS 141R"), Business Combinations, which requires most identifiable assets, liabilities, noncontrolling interests, and goodwill acquired in a business combination to be recorded at "full fair value." Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for periods beginning on or after December 15, 2008. The Company is currently evaluating the effect of SFAS 141R.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160 ("SFAS 160"), Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 will require noncontrolling interests

(previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. In addition, the statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for periods beginning on or after December 15, 2008. The Company is currently evaluating the effect of SFAS 160.

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Notes to Consolidated Financial Statements

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(2)

Investment Securities

Investment in securities at December 31, 2007 and 2006 consist of preferred and common stock investments that are classified as available-for-sale securities and are recorded at fair value. The Company acquires stock on margin. The margin loan is subject to separate terms and conditions. At December 31, 2007 and 2006, the loan balances were \$10,047 and \$6,394, respectively and are included in other liabilities in the accompanying consolidated balance sheets.

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 an unrealized loss of \$4,253 and \$546 on the accompanying consolidated balances sheets as of December 31, 2007 and 2006, 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 years ended December 31, 2007, 2006 and 2005 resulted in gains on sale of \$150, \$479 and \$11, respectively, which are included in other income in the accompanying consolidated statements of operations and other comprehensive income. Dividend income is recognized when received.

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. In accordance with Statement of Financial Accounting Standards No. 115 ("SFAS 115"), Accounting for Certain Investments in Debt and Equity Securities, and EITF 03-1, The Meaning of Other than temporary Impairment and Its Application to Certain Investments, for an impaired security the Company considers whether it has the ability and intent to hold the investment for a time sufficient to allow for any anticipated recovery in market value 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 year end and forecasted performance of the investee.

During the year ended December 31, 2007, the Company realized a loss of \$240 related to a decline in value of certain investment securities which were determined to be other than temporary and is included in other income in the accompanying consolidated statements of operations and other comprehensive income.

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 December 31, 2007 were as follows:

Less than 12 months	12 months or longer	Total
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Fair Value

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Description of Securities	Fair Value	Unrealized Losses		Unrealized Losses	Fair Value	Unrealized Losses
REIT Stock	\$ 2,483	(779)	9,781	(2,836)	12,264	(3,615)
Non REIT Stock	\$ 1,949	(768)	1,408	(151)	3,357	(919)

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INLAND REAL ESTATE CORPORATION**Notes to Consolidated Financial Statements****December 31, 2007****(In thousands, except per share data and square footage amounts)****(3)****Unconsolidated Joint Ventures**

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

Venture Partner	Company's Ownership Percentage at December 31, 2007	Investment in and advances to unconsolidated joint ventures at December 31, 2007	Investment in and advances to unconsolidated joint ventures at December 31, 2006
Crow Holdings Managers, LLC	-	\$ -	1,219
New York State Teachers' Retirement System	50%	67,101	64,556
North American Real Estate, Inc.	45%	6,861	4,350
Oak Property and Casualty	33%	700	227
TMK Development	40%	5,580	-
Paradise Development Group, Inc.	15%	5,560	-
Pine Tree Institutional Realty, LLC	85%	9,684	-
Tucker Development Corporation	48%	7,028	-
Inland Real Estate Exchange Corporation	50%	1,438	4,538
Investment in and advances to joint ventures		\$ 103,952	74,890

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 and other comprehensive income. 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 and other comprehensive income. During the year ended December 31, 2007, the Company earned \$4,386 in fee income from its unconsolidated joint ventures, as compared to \$2,475 and \$2,011 for the years ended December 31, 2006 and 2005, respectively. This fee income increased due in most part to acquisition fees on the properties purchased for the Company's joint venture with IREX as well as increased management fees on an increased number of properties in unconsolidated joint ventures. 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 years ended December 31, 2007, 2006 and 2005, the Company recorded \$1,428, \$1,380 and \$1,393, respectively, of amortization of this basis difference.

The Company guarantees certain portions of joint venture debt. In accordance with FIN 45, the Company is required to estimate the fair value of these guarantees and record a corresponding liability. The Company has determined these amounts were immaterial as of December 31, 2007 and have not recorded a liability related to these guarantees on the accompanying consolidated balance sheets.

INLAND REAL ESTATE CORPORATION
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During the year ended December 31, 2007, the Company sold its interest in its joint venture with Crow Holdings Managers, LLC for approximately \$3,500. This sale of joint venture interest resulted in a gain on the Company's investment of approximately \$2,228.

During the year ended December 31, 2007, the Company, through its joint venture with TMK Development, sold an additional parcel of land to a third party for approximately \$5,400. As a result of the sale and the return of capital received by the Company, the Company re-evaluated the criteria for primary beneficiaries under FIN 46R and determined that it is no longer the primary beneficiary in this variable interest entity and therefore, deconsolidated the joint venture. The joint venture recorded a gain on sale of approximately \$1,181, which is recorded in equity in earnings of unconsolidated joint ventures.

On November 16, 2007, the Company sold, through its joint venture with Pine Tree Institutional Realty LLC, a parcel of land to a third party for approximately \$4,500. The joint venture recorded a gain on sale of approximately \$240, which is recorded in equity in earnings of unconsolidated joint ventures.

During the year ended December 31, 2007, the Company acquired a total of nine investment properties on behalf of its joint venture with IREX, comprising approximately 982,000 square feet with a purchase price of approximately \$150,000. The joint venture is in various stages of selling these properties to TIC investors. During the year ended December 31, 2007, the Company earned acquisition and management fees for these properties which are included in fee income from unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. Additionally, in conjunction with the sales to the TIC investors, the Company recorded approximately \$697 in gains, which are included in gain on sale of joint venture interests on the accompanying consolidated statements of operations and other comprehensive income.

In September 2007, we entered into three interest rate swap contracts through our unconsolidated joint ventures to limit our exposure to variable interest rates. Upon entering into these contracts, we did not qualify for hedge accounting. Our pro rata share of the incurred losses were \$368 from these contracts and are included in equity in earnings of unconsolidated joint ventures on the accompanying consolidated statements of operations and other comprehensive income. In December 2007, we redesignated these swap contracts and then qualified for hedge accounting. As a result, we recorded our pro rata share of unrealized losses in the amount of \$81, which is included as a component of other comprehensive income on the accompanying consolidated statements of operations and other comprehensive income and as a component of investments in and advances to joint ventures in the accompanying consolidated balance sheets. The following table presents pertinent information related to these interest rate swap contracts.

<i>Notional Amount</i>	<i>Maturity Date</i>	<i>Company's pro rata</i>	<i>Total realized loss</i>	<i>Total unrealized loss</i>
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share

\$	20,329	February 27, 2009	45%	\$	(210)	(46)
	10,000	March 10, 2009	45%		(107)	(24)
	21,000	March 1, 2010	48%		(469)	(104)
\$	51,329			\$	(786)	(174)

INLAND REAL ESTATE CORPORATION**Notes to Consolidated Financial Statements****December 31, 2007****(In thousands, except per share data and square footage amounts)**

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

	December 31, 2007	December 31, 2006
Balance Sheet:		
Assets:		
Investment in real estate, net	\$ 689,307	540,721
Other assets	52,993	33,647
Total assets	\$ 742,300	574,368
Liabilities:		
Mortgage payable	\$ 401,668	317,949
Other liabilities	46,282	32,398
Total liabilities	447,950	350,347
Total equity	294,350	224,021
Total liabilities and equity	\$ 742,300	574,368

	December 31, 2007	December 31, 2006	December 31, 2005
Statement of Operations:			
Total revenues	\$ 69,138	55,790	33,187
Total expenses	(60,819)	(52,682)	(27,576)
Income from continuing operations	\$ 8,319	3,108	5,611
Inland's pro rata share of income from continuing operations (a)	\$ 4,832	2,873	4,591

(a)

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

(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 December 31, 2007, the balance of this mortgage receivable was \$21,996, including accrued interest. 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 recorded \$1,597 and \$1,088 of interest income for the years ended December 31, 2007 and 2006, respectively and has increased the mortgage receivable balance for unpaid interest by \$2,941 since inception.

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In conjunction with the April 2006 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. In October 2006, the buyer paid the mortgage and related interest due under the agreement. The Company recorded \$45 of interest income for the year ended December 31, 2006.

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 entity formed and sponsored by an affiliate of The Inland Group, Inc. The loan bore interest at a rate of 9.25% per annum and matured on September 30, 2007. The loan was secured by land owned by the borrower and the borrower had personally guaranteed the balance of the loan. In October 2007, IARETI paid the note and related interest due under the agreement. The Company recorded \$726 of interest income for the year ended December 31, 2007.

(5)

Transactions with Related Parties

During the years ended December 31, 2007, 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 and consulting fees were purchased at a contract rate of \$60 and \$75 per hour, respectively. The Company continues to purchase these services from The Inland Group, Inc. affiliates and for the years ended December 31, 2007, 2006 and 2005, these expenses, totaling \$1,415, \$833, and \$775, respectively are included in general and administrative expenses and property operating expenses. The payments to Inland affiliates increased during the year ended December 31, 2007, as compared to the years ended December 31, 2006 and 2005, due to capital costs paid to Inland Computer Services, Inc. for programming and development in relation to our computer system conversion. Additionally, the Company leases its corporate office space from an affiliate of The Inland Group, Inc. Payments under this lease for the years ended December 31, 2007, 2006 and 2005 were \$340, \$340 and \$284, respectively, and are also included in general and administrative expenses. The Inland Group, Inc., through affiliates, owns approximately 11.4% of the Company's outstanding common stock. For accounting purposes however, the Company is not directly affiliated with The Inland Group, Inc., or its affiliates.

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

Company's mortgage receivable with Tri-Land.

On August 12, 2003, the Company entered into an agreement with Inland Investment Advisors, Inc., an affiliate of The Inland Group, Inc. to manage its investment in securities. The Company pays a fee of up to one percent per annum on the net asset value under management. The Company paid approximately \$171, \$166 and \$98 for these services during the years ended December 31, 2007, 2006 and 2005, respectively.

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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. will provide assistance in the marketing of the Company's investment properties and will provide representation at various trade shows and conventions.

In June and September 2006 and July 2007, the Company entered into joint venture agreements with North American Real Estate, Inc ("NARE") to acquire and develop vacant land located in North Aurora, Illinois. One of our directors, Joel Simmons, is a minority partner in the entity that NARE formed to be the partner in this venture. Mr. Simmons will receive his pro rata share of NARE's earnings from this venture and is not entitled to preferred distributions.

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

The Company is a member of a limited liability company formed as an insurance association captive (the "Captive"), which is owned in equal proportions by the Company and two other related REITs sponsored by an affiliate of The Inland Group, Inc., Inland American Real Estate Trust, Inc. and Inland Western Retail Real Estate Trust, Inc. The Captive is serviced by Inland Risk and Insurance Management, Inc., also an affiliate of The Inland Group, Inc. The Captive was formed to initially insure/reimburse the members' deductible obligations for the first \$100 of property insurance and \$100 of general liability insurance. The Company entered into the Captive to stabilize its insurance costs, manage its exposures and recoup expenses through the functions of the captive program. This entity is considered to be a VIE as defined in FIN 46R and the Company is not considered the primary beneficiary. This investment is accounted for using the equity method of accounting.

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 entity formed and sponsored by an affiliate of The Inland Group, Inc. In October 2007, IARETI paid the note and related interest due under the agreement.

(6)

Stock Option Plan

The Company adopted the Independent Director Stock Option Plan ("Plan") with the commencement of our first offering in 1994. A total of 50 shares were authorized and reserved for issuance under this Plan. Only independent directors were eligible to participate in the Plan. The Plan granted each Independent Director an option to acquire 3 shares of common stock as of the date they become a director and an additional 1 shares on the date of each annual stockholders' meeting. The options for the initial 3 shares granted are exercisable as follows: 1 share on the date of grant and 1 share on each of the first and second anniversaries of the date of grant. The succeeding options are exercisable on the second anniversary of the date of grant. As of December 31, 2007, options to purchase all 50 authorized shares were issued, of which 30 have been exercised. The remaining options have exercise prices ranging from \$10.45 to \$15.62 per share.

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

In 2005, the Company adopted the 2005 Equity Award Plan ("2005 Plan"). The 2005 Plan governs grants of equity based awards to our officers, employees and directors. A total of 18 options have been issued to board members as of December 31, 2007, of which none have been exercised.

(7)

Discontinued Operations

During the years ended December 31, 2007, 2006 and 2005, the Company sold a total of nine investment properties. Additionally, the Company has sold portions of certain shopping centers and vacant land. For federal and state income tax purposes, certain of our sales qualified as 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 and would be included in other assets on the accompanying consolidated balance sheets. 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 on Sale	Tax Deferred Exchange
Sequoia Shopping Center	April 22, 2005	1,505	1,200	19	Yes
Vacant land (Edinburgh Festival)	April 27, 2005	-	291	33	No
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
Springhill Fashion Center	May 10, 2007	7,900	1,060	1,223	Yes
Maple Plaza	December 27, 2007	1,582	2,300	1,283	No

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. For the year ended December 31, 2007, there were no properties classified as held for sale.

On the accompanying consolidated balance sheets at December 31, 2007 and December 31, 2006, the Company has recorded \$429 and \$44, respectively of assets related to discontinued operations and \$304 and \$2, respectively of liabilities related to discontinued operations. These amounts are reflected as a component of other assets and other liabilities on the accompanying consolidated balance sheets. Additionally, for the years ended December 31, 2007, 2006 and 2005, the Company has recorded income from discontinued operations of \$2,747, \$7,062 and \$2,519, respectively, including gains on sale of \$2,506, \$6,017 and \$1,117, respectively.

INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

December 31, 2007

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

(8)

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:

2008	\$	91,556
2009		84,673
2010		78,316
2011		71,885
2012		65,029
Thereafter		302,534
Total	\$	693,993

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 and other comprehensive income.

Certain tenant leases contain provisions providing for "stepped" rent increases. U.S. GAAP requires the Company to record rental income for the period of occupancy using the effective monthly rent, which is the average monthly rent for the entire period of occupancy during the term of the lease. The accompanying consolidated financial statements include increases of \$681, \$996 and \$616 for the years ended December 31, 2007, 2006 and 2005, respectively, of rental income for the period of occupancy for which stepped rent increases apply and \$18,288 and \$17,607 in related accounts and mortgage receivable as of December 31, 2007 and 2006, respectively. The Company anticipates collecting these amounts over the terms of the leases as scheduled rent payments are made.

(9)

Distributions

For federal income tax purposes, distributions may consist of ordinary income distributions, non-taxable return of

capital, capital gains or a combination thereof. Distributions to the extent of the Company's current and accumulated earnings and profits for federal income tax purposes are taxable to the recipient as ordinary income. Distributions in excess of these earnings and profits (calculated for tax purposes) will constitute a non-taxable return of capital rather than a distribution and will reduce the recipient's basis in the shares to the extent thereof, and thereafter as taxable gain. Distributions in excess of earnings and profits have the effect of deferring taxation of the amount of the distribution until the sale of the stockholder's shares.

In order to maintain the Company's status as a REIT, the Company must distribute at least 90% of its "REIT taxable income," to its stockholders. REIT taxable income is defined as taxable income excluding the deduction for distributions paid and net capital gains. For the years ended December 31, 2007 and 2006, the Company's "REIT taxable income" was \$63,034 and \$54,864, respectively. The Company declared distributions to stockholders totaling \$63,824 and \$64,491 or \$0.98 and \$0.96 on an annual basis per share for the years ended December 31, 2007 and 2006, respectively. Future distributions are determined by the Company's board of directors. The Company expects to continue paying distributions to maintain its status as a REIT. The Company annually notifies its stockholders of the taxability of distributions paid during the proceeding year. The following table sets forth the taxability of distributions, on a per share basis, paid in 2007 and 2006:

INLAND REAL ESTATE CORPORATION
Notes to Consolidated Financial Statements
December 31, 2007

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

	2007 (a)	2006 (b)
Ordinary income	\$ 0.917	0.827
Non-taxable return of capital	0.008	0.127
Unrecaptured Section 1250 gains	0.019	-
Long-term capital gains	0.050	0.006
Qualified Dividends	0.038	0.016

(a)

The December distribution declared on December 17, 2007, with a record date of December 31, 2007 and payment date of January 17, 2008, is reportable for tax purposes in 2008 and is not reflected in the 2007 allocation.

(b)

The December distribution declared on December 19, 2006, with a record date of January 2, 2007 and payment date of January 17, 2007, is reportable for tax purposes in 2007 and is not reflected in the 2006 allocation.

(10)

Mortgages Payable

Mortgage loans outstanding as of December 31, 2007 were \$606,680 and had a weighted average interest rate of 5.40%. Of this amount, \$564,773 had fixed rates ranging from 3.99% to 7.65% and a weighted average fixed rate of 5.34% as of December 31, 2007. The remaining \$41,907 of mortgage debt represented variable rate loans with a weighted average interest rate of 6.19% as of December 31, 2007. As of December 31, 2007, scheduled maturities for the Company's outstanding mortgage indebtedness had various due dates through January 2018. The majority of the Company's mortgage loans require monthly payments of interest only, although some loans require principal and interest payments, as well as reserves for taxes, insurance and certain other costs.

The table below presents the principal amount of the debt maturing each year, including monthly annual amortization of principal, through December 31, 2012 and thereafter, based on debt outstanding at December 31, 2007 and weighted average interest rates for the debt maturing in each specified period.

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	2008 (a)	2009	2010	2011	2012	Thereafter
Maturing debt:						
Fixed rate debt	\$ 95,734	\$ 40,018	\$ 167,499	\$ 100,573	\$ 93,557	\$ 67,392
Variable rate debt	-	7,365	28,342	-	-	6,200
Weighted average interest rate						
Fixed rate debt	6.50%	5.86%	4.77%	4.59%	5.50%	4.91%
Variable rate debt	6.39%	7.03%	6.49%	-	-	3.83%

(a)

Approximately \$95,734 of the Company's mortgages payable mature during 2008. The Company intends to replace these loans with new debt at market terms.

INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

December 31, 2007

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

(11)

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, which includes a \$250,000 accordion feature, and matures on April 22, 2008. The line of credit has a one year extension option. 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 \$100,000 and \$28,000 as of December 31, 2007 and December 31, 2006, respectively.

The line of credit requires compliance with certain covenants, such as debt service ratios, minimum net worth requirements, distribution limitations and investment restrictions. As of December 31, 2007, the Company was in compliance with such covenants.

(12)

Convertible Notes

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

Interest on the notes is payable on May 15 and November 15 of each year beginning May 15, 2007. The notes mature on November 15, 2026 unless repurchased, redeemed or converted in accordance with their terms prior to that date.

The earliest date these notes can be redeemed by holders is November 15, 2011. Prior to November 21, 2011, the Company may not redeem the notes prior to the date on which they mature except to the extent necessary to preserve its status as a REIT. However, on or after November 21, 2011, the Company may redeem the notes, in whole or in

part, subject to the redemption terms in the note. Following the occurrence of certain change in control transactions, the Company may be required to repurchase the notes in whole or in part for cash at 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest. At December 31, 2007, the Company has recorded \$1,063 of accrued interest related to the convertible notes. This amount is included in accrued interest on the Company's consolidated balance sheets at December 31, 2007.

Holders may convert their notes into cash or a combination of cash and common stock, at the Company's option, at any time on or after October 15, 2026, but prior to the close of business on the second business day immediately preceding November 15, 2026, and also following the occurrence of certain events. Subject to certain exceptions, upon a conversion of notes the Company will deliver cash and shares of our common stock, if any, based on a daily conversion value calculated on a proportionate basis for each trading day of the relevant 30 day trading period. The conversion rate as of December 31, 2007, for each \$1 principal amount of notes was 48.2824 shares of our common stock, subject to adjustment under certain circumstances. This is equivalent to a conversion price of approximately \$20.71 per share of common stock.

INLAND REAL ESTATE CORPORATION**Notes to Consolidated Financial Statements****December 31, 2007****(In thousands, except per share data and square footage amounts)****(13)****Earnings per Share**

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

As of December 31, 2007, 69 shares of common stock issued pursuant to employment agreements were outstanding, of which 34 have vested. Additionally, the Company issued 40 shares pursuant to employment incentives of which 15 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 December 31, 2007 and 2006, options to purchase 37 and 26 shares of common stock, respectively, at exercise prices ranging from \$10.45 to \$19.96 per share were outstanding, respectively. During the years ended December 31, 2007 and 2006, options to purchase 6 and 3 shares, respectively, were exercised by certain independent directors. These options were not included in the computation of diluted EPS as the effect would be immaterial. Convertible notes are included in the computation of diluted EPS using the if-converted method, to the extent the impact of conversion is dilutive.

The basic weighted average number of common shares outstanding were 65,281, 67,154 and 67,244 for the years ended December 31, 2007, 2006 and 2005, respectively. The diluted weighted average number of common shares outstanding were 65,346, 67,223 and 67,298 for the years ended December 31, 2007, 2006 and 2005, respectively.

(14)**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 as employment incentives. As of December 31, 2007, the Company has issued the following shares:

Fiscal year shares issued	Shares issued pursuant to employment agreements	Shares issued pursuant to employment incentives	Average share price on the date of issuance	Aggregate value of shares issued pursuant to employment agreements	Aggregate value of shares issued pursuant to employment incentives	Deferred stock compensation
----------------------------------	--	--	--	---	---	------------------------------------

Prior to							
2004	5	- \$	11.00 \$	60 \$	- \$	-	
2004	32	15	12.93	411	193	175	
2005	19	11	15.18	290	167	218	
2006	8	8	16.01	129	130	181	
2007	5	6	17.36	92	95	160	
	69	40	\$	982 \$	585 \$	734	

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 \$436, \$267 and \$178 were recorded in connection with the vesting of these shares, for the years ended December 31, 2007, 2006 and 2005, respectively.

INLAND REAL ESTATE CORPORATION

Notes to Consolidated Financial Statements

December 31, 2007

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

(15)

Segment Reporting

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

The Company assesses and measures operating results on an individual property basis for each of its investment properties based on property net operating income. Management internally evaluates the operating performance of the properties as a whole and does not differentiate properties by geography, size or type. In accordance with the provisions of SFAS No. 131: *Disclosure about Segments of an Enterprise and Related Information*, each of the Company's investment properties is considered a separate operating segment. However, under the aggregation criteria of SFAS No. 131 and as clarified in EITF Issue No. 14-10: *Determining Whether to Aggregate Operating Segments that Do Not Meet the Quantitative Thresholds*, the Company's properties are considered one reportable segment.

(16)

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.

(17)

Subsequent Events

On January 10, 2008, the Company sold, through its joint venture with TMK Development, LTD, approximately 1.2 acres of vacant land for \$1,500 to Fifth Third Bank.

On January 16, 2008, the Company purchased Fox Run Square from an unaffiliated third party for \$23,150. The purchase price was funded using cash and cash equivalents. The property is located in Naperville, Illinois and

contains 143,512 square feet of leasable area. Its major tenants are Dominick's Finer Foods and Ace Hardware.

On January, 17, 2008, the Company paid a cash distribution of \$0.08167 per share on the outstanding shares of its common stock to stockholders of record at the close of business on December 31, 2007.

On January 17, 2008, the Company announced that it had declared a cash distribution of \$0.08167 per share on the outstanding shares of its common stock. This distribution was payable on February 19, 2008 to the stockholders of record at the close of business on January 31, 2008.

On February 13, 2008, the Company sold an investment property in Decatur, Illinois, previously leased to Walgreens, for \$360.

On February, 19, 2008, the Company paid a cash distribution of \$0.08167 per share on the outstanding shares of its common stock to stockholders of record at the close of business on January 31, 2008.

On February 19, 2008, the Company announced that it had declared a cash distribution of \$0.08167 per share on the outstanding shares of its common stock. This distribution is payable on March 17, 2008 to the stockholders of record at the close of business on February 29, 2008.

INLAND REAL ESTATE CORPORATION**Notes to Consolidated Financial Statements****December 31, 2007****(In thousands, except per share data and square footage amounts)****(18)****Quarterly Operating Results (unaudited)**

The following represents results of operations for the quarters during the years 2007 and 2006:

	December 31, 2007	September 30, 2007	June 30, 2007	March 31, 2007
Total revenue	\$ 45,901	45,440	45,548	48,084
Income from continuing operations	9,964	10,030	9,354	11,721
Net income	11,386	10,032	10,705	11,693
Income from continuing operations per common share, basic and diluted	0.16	0.15	0.14	0.18
Net income per common share, basic and diluted	0.18	0.15	0.16	0.18
	December 31, 2006	September 30, 2006	June 30, 2006	March 31, 2006
Total revenue	\$ 43,266	44,243	44,512	43,739
Income from continuing operations	7,903	10,585	9,674	9,960
Net income	8,440	14,626	12,242	9,876
Income from continuing operations per common share, basic and diluted	0.12	0.16	0.14	0.15
Net income per common share, basic and diluted	0.12	0.22	0.18	0.15

INLAND REAL ESTATE CORPORATION
Schedule III
Real Estate and Accumulated Depreciation
December 31, 2007

Initial Cost

Gross amount at which carried

(A)

at end of period(B)

	Encumbrance	Land improvements	Buildings and improvements (C)	Adjustments To Basis (C)	Land and improvements (D)	Buildings and improvements (D)	Total (D,E)	Accumulated Depreciation (D,F)	Date Con-struct-	Date Acq
Single-user Retail										
AT&T Davenport										
Davenport, IA	\$9,182	1,976	13,524	(1,625)	1,976	11,899	13,875	-	2007	12/07
AT&T Evansville										
Evansville, IN	9,369	2,521	13,295	(1,901)	2,521	11,394	13,915	-	1996	12/07
AT&T Joplin										
Joplin, MO	7,699	1,209	11,791	(1,511)	1,209	10,280	11,489	-	2007	12/07
Bally's Total Fitness										
St. Paul, MN	3,145	1,298	4,612	-	1,298	4,612	5,910	1,517	1988	09/99
Carmax										
Schaumburg, IL	11,730	7,142	13,460	1	7,142	13,461	20,603	4,076	1998	12/98
Carmax										
Tinley Park, IL	9,450	6,789	12,112	5	6,789	12,117	18,906	3,669	1998	12/98
Circuit City										
Traverse City, MI	1,688	1,123	1,779	-	1,123	1,779	2,902	546	1998	01/99
Cub Foods										
Arden Hills, MN	-	1,754	7,966	(784)	1,754	7,182	8,936	960	2003	03/04
Cub Foods										
	-	1,426	5,925	4	1,426	5,929	7,355	1,892	1999	06/99

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Buffalo Grove, IL Cub Foods									
Hutchinson, MN Cub Foods	-	875	4,589	(68)	875	4,521	5,396	831	1999 01/03
Indianapolis, IN Cub Foods	2,255	2,183	3,561	-	2,183	3,561	5,744	1,366	1991 03/99
Plymouth, MN Disney	2,732	1,551	3,916	-	1,551	3,916	5,467	1,275	1991 03/99
Celebration, FL Dominick's	-	2,175	25,354	(247)	2,175	25,107	27,282	4,533	1995 07/02
Countryside, IL Dominick's	-	1,375	925	-	1,375	925	2,300	367	1975 12/97
Glendale Heights, IL Dominick's	-	1,265	6,943	9	1,265	6,952	8,217	2,543	199709/97
Hammond, IN Dominick's	4,100	825	8,026	-	825	8,026	8,851	2,505	199905/99
Schaumburg, IL Eckerd Drug Store	-	2,294	8,393	2	2,294	8,395	10,689	2,962	199605/97
Chattanooga, TN Hollywood Video	1,700	1,023	1,365	(19)	1,023	1,346	2,369	288	199905/02
Hammond, IN Home Goods	882	405	946	3	405	949	1,354	287	199812/98
Coon Rapids, MN	-	915	3,768	(401)	915	3,367	4,282	252	199810/05

INLAND REAL ESTATE CORPORATION
Schedule III
Real Estate and Accumulated Depreciation
December 31, 2007

Initial Cost

Gross amount at which carried

(A)

at end of period(B)

	Encumbrance	Land	Buildings and improvements	Adjustments To Basis (C)	Land and Improvements	Buildings and improvements (D)	Total (D,E)	Accumulated Depreciation (D,F)	Date Con-struct-	
ls,	\$	-	877	1,967	(35)	877	1,932	2,809	354	20
		-	915	2,389	-	915	2,389	3,304	531	19
ls,		-	545	603	2	545	605	1,150	219	19
VI		-	1,196	6,942	(925)	1,196	6,017	7,213	367	20
k		-	1,980	4,325	294	1,980	4,619	6,599	1,675	19
go,		1,730	725	1,970	-	725	1,970	2,695	714	19
g,		-	1,215	1,273	-	1,215	1,273	2,488	409	19

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	-	170	883	3	170	886	1,056	316	19
	-	78	1,131	(362)	78	769	847	487	19
MO	570	666	1,748	298	666	2,046	2,712	352	19
ood									
IL	988	750	1,230	780	750	2,010	2,760	674	19
	8,000	3,220	8,284	638	3,220	8,922	12,142	3,571	19
za	709	769	1,078	35	769	1,113	1,882	361	19
re									
AN	6,250	1,978	8,028	(334)	2,136	7,536	9,672	542	20
nter									
	7,130	1,516	11,193	2,113	1,552	13,270	14,822	2,308	1997 19
	2,916	1,707	4,145	1,963	1,707	6,108	7,815	1,968	19
IL	7,425	2,412	11,026	(2,206)	2,412	8,820	11,232	1,515	19
	-	2,517	3,057	646	2,517	3,703	6,220	1,394	19

INLAND REAL ESTATE CORPORATION

Schedule III (continued)

Real Estate and Accumulated Depreciation

December 31, 2007

Initial Cost

Gross amount at which carried

(A)

at end of period (B)

Encumbrance	Land	Improvements (C)	Adjustments to Basis (C)	Land and improvements (D)	Buildings and improvements (D)	Total (D,E)	Accumulated Depreciation	
							Date Constructed	Date Acq

**Neighborhood
Retail**

Centers

Downers Grove
Market

Downers Grove,
IL

\$	12,500	6,224	11,617	431	6,224	12,048	18,272	4,287
----	--------	-------	--------	-----	-------	--------	--------	-------