

INLAND REAL ESTATE CORP  
Form 10-Q  
August 07, 2009

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

**FORM 10-Q**

**Q**

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

For the quarterly period ended June 30, 2009

or

**q**

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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

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

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

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One): Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer (do not check if a smaller reporting company) ☐ 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 August 6, 2009, there were 84,295,635 shares of common stock outstanding.

**INLAND REAL ESTATE CORPORATION**  
**(a Maryland corporation)**

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**Part I - Financial Information****Item 1. Financial Statements****INLAND REAL ESTATE CORPORATION****Consolidated Balance Sheets  
June 30, 2009 and December 31, 2008  
(In thousands, except per share data)**

	June 30, 2009 (unaudited)	December 31, 2008
<b>Assets:</b>		
Investment properties:		
Land	\$ 333,433	336,917
Construction in progress	3,516	2,620
Building and improvements	914,937	926,455
	1,251,886	1,265,992
Less accumulated depreciation	292,852	279,945
Net investment properties	959,034	986,047
Cash and cash equivalents	13,126	5,180
Investment in securities	9,324	8,429
Accounts receivable, net	46,000	47,305
Investment in and advances to unconsolidated joint ventures	133,776	150,554
Acquired lease intangibles, net	15,772	18,055
Deferred costs, net	8,347	9,612
Other assets	8,939	11,649
Total assets	\$ 1,194,318	1,236,831
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 31,905	30,621
Acquired below market lease intangibles, net	2,546	2,793
Distributions payable	4,003	5,431
Mortgages payable	412,850	479,935
Term loan	140,000	140,000
Line of credit facility	15,000	52,000

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Convertible notes	127,855	159,661
Other liabilities	12,385	14,166
Total liabilities	746,544	884,607
Stockholders' Equity:		
Preferred stock, \$0.01 par value, 6,000 Shares authorized; none issued and outstanding at June 30, 2009 and December 31, 2008	-	-
Common stock, \$0.01 par value, 500,000 Shares authorized; 84,261 and 66,498 Shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	843	665
Additional paid-in capital (net of offering costs of \$64,150 and \$58,816 at June 30, 2009 and December 31, 2008, respectively))	747,224	636,199
Accumulated distributions in excess of net income	(303,606)	(284,551)
Accumulated other comprehensive income (loss)	1,364	(2,235)
Total stockholders' equity	445,825	350,078
Noncontrolling interest	1,949	2,146
Total equity	447,774	352,224
Total liabilities and equity	\$ 1,194,318	1,236,831

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 three and six months ended June 30, 2009 and 2008 (unaudited)**  
**(In thousands except per share data)**

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenues				
Rental income	\$ 30,040	31,955	60,727	64,626
Tenant recoveries	8,899	12,260	22,588	27,448
Other property income	658	1,487	1,860	1,968
Fee income from unconsolidated joint ventures	694	1,197	1,836	1,989
Total revenues	40,291	46,899	87,011	96,031
Expenses:				
Property operating expenses	6,538	5,960	15,568	14,869
Real estate tax expense	7,775	8,157	15,872	16,464
Depreciation and amortization	11,355	11,690	23,836	22,326
Provision for asset impairment	-	666	1,824	666
General and administrative expenses	3,171	3,538	6,449	6,591
Total expenses	28,839	30,011	63,549	60,916
Operating income	11,452	16,888	23,462	35,115
Other income	381	2,235	718	3,592
Gain on sale of investment properties	-	-	341	-
Gain on sale of joint venture interest	433	3,321	1,366	3,975
Gain on extinguishment of debt	2,443	-	6,049	-
Impairment of investment securities	(823)	(2,505)	(2,504)	(2,510)
Interest expense	(8,679)	(11,152)	(18,512)	(23,168)
Income before equity in earnings (loss) of unconsolidated joint ventures, income tax expense of taxable REIT subsidiary and discontinued operations	5,207	8,787	10,920	17,004
Income tax benefit (expense) of taxable REIT subsidiary	55	(164)	(402)	(406)
Equity in earnings (loss) on unconsolidated joint ventures	(1,536)	626	(2,106)	1,791

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Income from continuing operations	3,726	9,249	8,412	18,389
Income from discontinued operations	439	376	2,523	1,332
Net income	4,165	9,625	10,935	19,721
Less: Net income attributable to the noncontrolling interest	(78)	(103)	(175)	(216)
Net income available to common stockholders	4,087	9,522	10,760	19,505
Other comprehensive income (expense):				
Unrealized gain (loss) on investment securities	3,092	(1,359)	885	(803)
Reversal of unrealized loss to realized loss on investment securities	823	2,505	2,504	2,510
Unrealized gain (loss) on derivative instruments	88	367	210	(21)
Comprehensive income	\$ 8,090	11,035	14,359	21,191
Basic and diluted earnings available to common shares per weighted average common share:				
Income from continuing operations	\$ 0.05	0.14	0.12	0.28
Discontinued operations	-	-	0.03	0.02
Net income available to common stockholders per weighted average common share basic and diluted	\$ 0.05	0.14	0.15	0.30
Weighted average number of common shares outstanding basic	78,427	65,929	72,536	65,839
Weighted average number of common shares outstanding diluted	78,481	65,989	72,590	65,899

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



**INLAND REAL ESTATE CORPORATION**  
**Consolidated Statement of Stockholders' Equity**  
**For the six months ended June 30, 2009 (unaudited)**  
**(Dollars in thousands, except per share data)**

	Six months ended June 30, 2009
<i>Number of shares</i>	
Balance at beginning of period	66,498
Shares issued from DRP	630
Cancelled restricted shares	(2)
Issuance of shares	17,135
Balance at end of period	84,261
<i>Common Stock</i>	
Balance at beginning of period	\$ 665
Proceeds from DRP	7
Issuance of shares	171
Balance at end of period	843
<i>Additional Paid-in capital</i>	
Balance at beginning of period	636,199
Proceeds from DRP	4,959
Amortization of stock compensation	159
Amortization of debt issue costs	37
Issuance of shares	111,204
Offering costs	(5,334)
Balance at end of period	747,224
<i>Accumulated distributions in excess of net income</i>	
Balance at beginning of period	(284,551)
Net income available to common stockholders	10,760
Distributions declared	(29,815)
Balance at end of period	(303,606)
<i>Accumulated other comprehensive income (loss)</i>	
Balance at beginning of period	(2,235)
Unrealized loss on investment securities	885
Reversal of unrealized loss to realized loss on investment securities	2,504
Unrealized gain on derivative instruments	210
Balance at end of period	1,364

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*Noncontrolling interest*

Balance at beginning of period	2,146
Net income attributable to noncontrolling interest	175
Distributions to noncontrolling interest	(372)
Balance at end of period	1,949

<i>Total equity</i>	\$	447,774
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The accompanying notes are an integral part of these financial statements

**INLAND REAL ESTATE CORPORATION****Consolidated Statements of Cash Flows****For the six months ended June 30, 2009 and 2008 (unaudited)****(In thousands)**

	Six months ended June 30, 2009	Six months ended June 30, 2008
Cash flows from operating activities:		
Net income	\$ 10,760	19,505
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for asset impairment	1,824	666
Depreciation and amortization	24,136	22,962
Amortization of deferred stock compensation	159	150
Amortization on acquired above/below market leases	(43)	(79)
Gain on sale of investment properties	(2,349)	(1,437)
Gain on extinguishment of debt	(6,049)	-
Realized loss on investment securities, net	2,504	1,565
Noncontrolling interest	175	216
Equity in earnings (loss) on unconsolidated ventures	2,106	(1,791)
Gain on sale of joint venture interest	(1,366)	(3,975)
Straight line rental income	440	142
Amortization of loan fees	1,511	1,086
Amortization of convertible note discount	748	898
Distributions from unconsolidated joint ventures	42	4
Changes in assets and liabilities:		
Restricted cash	754	2,345
Accounts receivable and other assets, net	3,642	(8,527)
Accounts payable and accrued expenses	613	(1,328)
Prepaid rents and other liabilities	(2,656)	(2,441)
Net cash provided by operating activities	36,951	29,961

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Cash flows from investing activities:

Restricted cash	(109)	58
Proceeds from sale of interest in joint venture, net	19,724	25,304
Purchase of investment securities, net	-	(288)
Purchase of investment properties	-	(27,984)
Additions to investment properties, net of accounts payable	(5,994)	(6,765)
Proceeds from sale of investment properties, net	7,712	6,677
Distributions from unconsolidated joint ventures	3,479	12,246
Investment in unconsolidated joint ventures	(3,086)	(5,523)
Mortgages receivable	(515)	22,872
Leasing fees	(1,011)	(590)
Net cash provided by investing activities	20,200	26,007

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

**INLAND REAL ESTATE CORPORATION****Consolidated Statements of Cash Flows****For the six months ended June 30, 2009 and 2008 (unaudited)****(In thousands)**

	Six months ended June 30, 2009	Six months ended June 30, 2008
Cash flows from financing activities:		
Proceeds from the DRP	\$ 4,966	5,515
Issuance of shares, net of offering costs	106,041	-
Loan proceeds	-	39,785
Payoff of debt	(63,875)	(51,610)
Net Proceeds (repayments) under line of credit facility	(37,000)	(15,000)
Convertible notes	(26,517)	-
Loan fees	(237)	(1,038)
Other current liabilities	(967)	(2,659)
Distributions paid	(31,244)	(32,260)
Distributions to noncontrolling interest partners	(372)	(373)
Net cash used in financing activities	(49,205)	(57,640)
Net increase (decrease) in cash and cash equivalents	7,946	(1,672)
Cash and cash equivalents at beginning of period	5,180	18,378
Cash and cash equivalents at end of period	\$ 13,126	16,706
Supplemental disclosure of cash flow information		
Cash paid for interest, net of capitalized interest	\$ 17,650	24,404

The accompanying notes are an integral part of these financial statements

**INLAND REAL ESTATE CORPORATION**

**Notes to Consolidated Financial Statements**

**June 30, 2009 (unaudited)**

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

*The accompanying financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. Readers of this Quarterly Report should refer to the audited financial statements of Inland Real Estate Corporation (the "Company") for the year ended December 31, 2008, which are included in the Company's 2008 Annual Report, as certain footnote disclosures contained in such audited financial statements have been omitted from this Report on Form 10-Q. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included in this Quarterly Report.*

**(1)**

**Organization and Basis of Accounting**

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

The Company has qualified as a REIT under the Internal Revenue Code of 1986, as amended (the "Code") for federal income tax purposes commencing with the tax year ending December 31, 1995. So long as the Company qualifies for treatment as a REIT, it generally will not be subject to federal income tax to the extent it meets the requirements of the tests imposed by the Code. If the Company fails to qualify as a REIT in any taxable year, without the benefit of certain relief provisions, the Company will be subject to federal and state income taxes on its taxable income at regular corporate income 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, property or net worth and federal income and excise taxes on its undistributed income.

The Company engages in certain activities through Inland Venture Corporation ( IVC ), a wholly-owned taxable REIT subsidiary ( TRS ). Additionally, in May 2009, the Company formed another wholly owned TRS, Inland Exchange Venture Corporation ("IEVC"), to be a partner in its new joint venture with Inland Real Estate Exchange Corporation ("IREX"). As such, the TRS entities are subject to federal and state income and franchise taxes from these activities.

The Company had no unrecognized tax benefits as of June 30, 2009. The Company expects no significant increases or decreases in unrecognized tax benefits due to changes in tax positions within one year of June 30, 2009. The Company has no interest or penalties relating to income taxes recognized in the consolidated statements of operations and other comprehensive income for the three and six months ended June 30, 2009 and 2008, or in the consolidated balance sheets as of June 30, 2009. As of June 30, 2009, returns for the calendar years 2005 through 2008 remain subject to examination by U.S. and various state and local tax jurisdictions.

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

Certain reclassifications were made to the 2008 financial statements to conform to the 2009 presentation but have not changed the results of prior year, other than as indicated or discussed. Please refer to footnote 12 for a discussion of the retrospective accounting change related to the Company's convertible notes.

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 noncontrolling interest in the accompanying consolidated financial statements. All inter-company balances and transactions have been eliminated in consolidation.



**INLAND REAL ESTATE CORPORATION**

**Notes to Consolidated Financial Statements**

**June 30, 2009 (unaudited)**

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