INLAND REAL ESTATE CORP
Form 10-Q
November 09, 2007

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

FORM 10-Q

Q

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

For the quarterly period ended September 30, 2007

or

q

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

For the transition period from ____________ to ____________

Commission File Number 001-32185

INLAND REAL ESTATE CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

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

As of November 8, 2007, there were 65,542,285 shares of common stock outstanding.

INLAND REAL ESTATE CORPORATION
(a Maryland corporation)

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Part I - Financial Information

Item 1. Financial Statements

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

Assets

		September 30, 2007 (unaudited)	December 31, 2006
Investment properties:			
Land	$	346,367	337,896
Construction in progress		1,520	434
Building and improvements		942,476	925,316
		1,290,363	1,263,646
Less accumulated depreciation		242,455	218,808
Net investment properties		1,047,908	1,044,838
Cash and cash equivalents		24,183	27,569
Investment in securities (net of an unrealized loss of $1,260 and $546 at September 30, 2007 and December 31, 2006, respectively)		22,088	16,777
Restricted cash		5,376	4,044
Accounts and rents receivable (net of provision for doubtful accounts of $1,343 and $1,990 at September 30, 2007 and December 31, 2006, respectively)		40,251	33,668
Mortgages receivable		30,699	27,848
Investment in and advances to joint ventures		91,611	74,890
Deposits and other assets		5,983	4,562
Acquired above market lease intangibles (net of accumulated amortization of $2,396 and $2,450 at September 30, 2007 and December 31, 2006, respectively)		2,614	3,118
Acquired in-place lease intangibles (net of accumulated amortization of $8,584 and $6,534 at September 30, 2007 and December 31,		21,873	21,102

2006, respectively)			
Leasing fees (net of accumulated amortization of $1,687 and $1,572 at September 30, 2007 and December 31, 2006, respectively)		3,578	3,378
Loan fees (net of accumulated amortization of $5,128 and $4,107 at September 30, 2007 and December 31, 2006, respectively)		6,385	7,367
Total assets	$	1,302,549	1,269,161

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

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

Liabilities and Stockholders' Equity

		September 30, 2007 (unaudited)	December 31, 2006
Liabilities:			
Accounts payable and accrued expenses	$	6,274	5,558
Acquired below market lease intangibles (net of accumulated amortization of $3,917 and $3,535 at September 30, 2007 and December 31, 2006, respectively)		3,643	4,537
Accrued interest		5,925	3,683
Accrued real estate taxes		28,451	24,425
Distributions payable		5,348	5,205
Security and other deposits		2,455	2,466
Mortgages payable		599,874	622,280
Line of credit		80,000	28,000
Convertible notes		180,000	180,000
Prepaid rents and unearned income		1,999	2,596
Other liabilities		17,781	10,363
Total liabilities		931,750	889,113
Commitments and contingencies			
Minority interest		2,576	3,065
Stockholders' Equity:			
Preferred stock, $0.01 par value, 6,000 Shares authorized; none issued and outstanding at September 30, 2007 and December 31, 2006		-	-
Common stock, $0.01 par value, 500,000 Shares authorized; 65,484 and 65,059 Shares issued and outstanding at September 30, 2007 and December 31, 2006, respectively		654	650
Additional paid-in capital (net of offering costs of $58,816)		612,403	605,133
Accumulated distributions in excess of net income		(243,574)	(228,254)
Accumulated other comprehensive loss		(1,260)	(546)

Total stockholders' equity		368,223	376,983
Total liabilities and stockholders' equity	$	1,302,549	1,269,161

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

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

		Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Revenues:					
Rental income	$	32,757	32,647	98,385	96,091
Tenant recoveries		12,118	11,193	37,730	35,170
Other property income		565	403	2,569	858
Total revenues		45,440	44,243	138,684	132,119
Expenses:					
Property operating expenses		5,618	4,580	18,845	14,977
Real estate tax expense		8,270	7,865	24,389	24,095
Depreciation and amortization		10,842	10,137	31,926	30,591
General and administrative expenses		2,506	2,415	8,871	7,422
Total expenses		27,236	24,997	84,031	77,085
Operating income		18,204	19,246	54,653	55,034
Other income		1,300	1,620	3,840	3,779
Fee income from unconsolidated joint ventures		2,114	657	3,242	1,747
Gain on sale of investment properties		-	132	-	623
Gain on sale of joint venture interest		-	-	2,228	-
Gain on extinguishment of debt		-	-	319	-
Interest expense		(12,172)	(11,429)	(36,091)	(32,688)
Minority interest		(117)	(194)	(336)	(810)
Income before equity in earnings of unconsolidated joint ventures, income tax expense of taxable REIT subsidiary and discontinued operations		9,329	10,032	27,855	27,685
Income tax expense of taxable REIT subsidiary		(229)	-	(654)	(53)
Equity in earnings of unconsolidated joint ventures		930	553	3,873	2,419

Income from continuing operations		10,030	10,585	31,074	30,051
Discontinued operations:					
Income from discontinued operations (including gain on sale of investment properties of $0 and $3,883 for the three months ended September 30, 2007 and 2006, respectively and $1,223 and $6,017 for the nine months ended September 30, 2007 and 2006)		2	4,041	1,356	6,693
Net income available to common stockholders		10,032	14,626	32,430	36,744
Other comprehensive income:					
Unrealized loss on investment securities		(429)	(352)	(714)	(762)
Comprehensive income	$	9,603	14,274	31,716	35,982

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

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

		Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Basic and diluted earnings available to common shares per weighted average common share:					
Income from continuing operations	$	0.15	0.16	0.48	0.44
Discontinued operations		-	0.06	0.02	0.10
Net income available to common stockholders per weighted average common share basic and diluted	$	0.15	0.22	0.50	0.54
Weighted average number of common shares outstanding basic		65,361	67,668	65,193	67,574
Weighted average number of common shares outstanding diluted		65,422	67,737	65,260	67,643

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

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

		Nine months ended September 30, 2007
Number of shares		
Balance at beginning of period		65,059
Shares issued from DRP		407
Restricted Shares		11
Exercise of stock options		4
Director shares		3
Balance at end of period		65,484
Common Stock		
Balance at beginning of period	$	650
Proceeds from DRP		4
Balance at end of period		654
Additional Paid-in capital		
Balance at beginning of period		605,133
Proceeds from DRP		6,970
Amortization of stock compensation		227
Exercise of stock options		25
Director shares		48
Balance at end of period		612,403
Accumulated distributions in excess of net income		
Balance at beginning of period		(228,254)
Net income available to common stockholders		32,430
Distributions declared ($0.73 per common share outstanding)		(47,750)
Balance at end of period		(243,574)
Accumulated other comprehensive income		
Balance at beginning of period		(546)
Other comprehensive loss, net		(714)
Balance at end of period		(1,260)
Total stockholders equity	$	368,223

The accompanying notes are an integral part of these financial statements

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

		Nine months ended September 30, 2007	Nine months ended September 30, 2006
Cash flows from operating activities:			
Net income	$	32,430	36,744
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		31,926	31,018
Non real estate depreciation and amortization		327	-
Non-cash charges associated with discontinued operations		97	186
Amortization of deferred stock compensation		227	184
Amortization on acquired above market lease intangibles		505	552
Amortization on acquired below market lease intangibles		(894)	(1,044)
Gain on sale of investment properties		(1,223)	(6,640)
Gain on extinguishment of debt		(319)	-
Realized gain on investment securities		(135)	-
Realized loss on investment securities		215	-
Minority interest		336	810
Equity in earnings from unconsolidated ventures		(3,873)	(2,419)
Gain on sale of joint venture interest		(2,228)	-
Straight line rental income		(584)	(606)
Provision for doubtful accounts		(725)	(344)
Amortization of loan fees		1,557	960
Distributions from unconsolidated joint ventures		5,482	4,780
Mortgage receivable		(410)	(3,682)
Changes in assets and liabilities:			
Restricted cash		(813)	991
Accounts and rents receivable		(5,484)	(1,776)
Deposits and other assets		(595)	(712)
Accounts payable and accrued expenses		4,085	(1,331)
Accrued interest payable		2,546	649
Accrued real estate taxes		4,026	(2,155)
Security and other deposits		(11)	27
Prepaid rents and unearned income		(299)	(187)
Net cash provided by operating activities	$	66,166	56,005

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

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

	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Cash flows from investing activities:		
Restricted cash	$ (569)	(7,651)
Escrows held for others	(4)	(112)
Proceeds from sale of interest in joint venture	3,448	-
Purchase of investment securities	(9,017)	(1,333)
Sale of investment securities	2,912	2,193
Additions to investment properties, net of amounts payable	(12,035)	(20,193)
Rental income under master lease agreements	28	(112)
Purchase of investment properties	(99,351)	(66,538)
Purchase of furniture, fixtures and equipment	(12)	(66)
Purchase of computers and software	(1,843)	-
Acquired above market lease intangibles	-	(179)
Acquired in place lease intangibles	(12,049)	(8,051)
Acquired below market lease intangibles	-	145
Distributions from unconsolidated joint ventures	30,659	1,423
Proceeds from sale of investment property, net	970	21,186
Proceeds from sale of TIC interests	30,304	-
Construction in progress	(2,170)	821
Investment in unconsolidated joint ventures	(43,635)	(17,657)
Mortgage receivable	(2,441)	-
Leasing fees	(786)	(962)
Net cash used in investing activities	(115,591)	(97,086)
Cash flows from financing activities:		
Proceeds from the DRP	6,974	3,812
Proceeds from exercise of options	25	-
Directors shares	48	-
Purchase of minority interest, net	(126)	(10,160)
Loan proceeds	69,133	25,080
Proceeds from unsecured line of credit	90,000	77,000
Repayments on unsecured line of credit	(38,000)	-
Loan fees	(605)	(843)

Other current liabilities		5,339	(1,635)
Distributions paid		(47,607)	(48,655)
Distributions to minority interest partners		(563)	(1,071)
Payoff of debt		(37,971)	(10,382)
Principal payments of debt		(608)	(532)
Net cash provided by financing activities		46,039	32,614
Net decrease in cash and cash equivalents		(3,386)	(8,467)
Cash and cash equivalents at beginning of period		27,569	26,804
Cash and cash equivalents at end of period	$	24,183	18,337

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

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

		Nine months ended September 30, 2007	Nine months ended September 30, 2006
Supplemental schedule of noncash investing and financing activities:			
Purchase of investment properties	$	-	(85,081)
Assumption of mortgage debt		-	18,543
Proceeds from sale of investment properties		8,870	-
Transfer of mortgage debt		(7,900)	-
	$	970	(66,538)
Contribution of properties and other assets, net of accumulated depreciation	$	-	6,980
Debt associated with contribution of properties		-	(3,300)
	$	-	3,680
Distributions payable	$	5,348	5,422
Cash paid for interest	$	33,782	31,402
Supplemental schedule of noncash joint venture activity:			
Assets:			
Land, building and improvements and construction in progress, net		(6,073)	-
Other assets		(697)	-
Total assets	$	(6,770)	-
Total liabilities and equity	$	(6,770)	-
Investment in and advances to joint ventures at January 1, 2007 and 2006	$	6,574	-
Unconsolidation of investment properties sold to TIC investors:			
Assets:			
Investment properties, net		75,251	-
Other assets		9,156	-

Total assets	84,407	-
Liabilities:		
Mortgages payable	45,060	-
Other liabilities	5,154	-
Total liabilities	50,214	-
Equity	34,193	-
Total liabilities and equity	84,406	-

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

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

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

(1) Organization and Basis of Accounting

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

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

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

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

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

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

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

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

The Company capitalizes interest costs related to construction in progress and considers both interest paid on debt obtained to fund the project and the interest cost incurred during the period that could have been avoided. The Company has recorded approximately $1,514 and $93 of capitalized interest related to certain of its development joint ventures for the nine months ended September 30, 2007 and 2006, respectively.

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

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

Tenants required to pay a security deposit under their lease with the Company have paid either in cash or by posting letters of credit. The letters of credit are not recorded in the accompanying consolidated financial statements. As of September 30, 2007 and December 31, 2006, the Company held letters of credit for tenant security deposits totaling approximately $746 and $418, respectively.

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

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

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

Recent Accounting Principles

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

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

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

(2) Investment Securities

Investment in securities at September 30, 2007 and 2006 are classified as available-for-sale securities. Available-for sale securities are recorded at fair value. The Company acquires stock on margin. The margin loan is subject to separate terms and conditions. At September 30, 2007 and December 31, 2006 the loan balances were $11,733 and $6,394, respectively, and are included in other liabilities in the accompanying consolidated balance sheets.

Sales of investment securities available-for-sale during the nine months ended September 30, 2007 and 2006 resulted in gains on sale of $135 and $254, respectively, which are included in other income in the accompanying consolidated statements of operations. Additionally, during the nine months ended September 30, 2007, the Company realized a loss of $215 related to a decline in value of certain investment securities which were determined to be other than temporary and is also included in other income in the accompanying consolidated statements of operations.

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

		Less than 12 months		12 months or longer		Total	
Description of Securities		Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
REIT Stock	$	8,975	(589)	2,749	(304)	11,724	(893)
Non-REIT Stock	$	1,552	(86)	3,152	(794)	4,704	(880)

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

(3) Unconsolidated Joint Ventures

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

Venture Partner	Company's Ownership Percentage		September 30, 2007	December 31, 2006
Crow Holdings Managers, LLC	-		-	1,219
New York State Teachers' Retirement System	50%	$	61,870	64,556
North American Real Estate, Inc.	45%		6,648	4,350
Oak Property and Casualty	25%		614	227
TMK Development	40%		4,116	-
Paradise Development Group, Inc.	15%		5,870	-
Pine Tree Institutional Realty, LLC	85%		4,425	-
Tucker Development Corporation (a)	48%		6,951	-
Inland Real Estate Exchange Corporation	50%		1,117	4,538
Investment in and advances to joint ventures		$	91,611	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. Additionally, the Company earns fees for providing property management, leasing and acquisition activities to these ventures. The Company recognizes only its share of these fees in the accompanying consolidated statements of operations. During the three and nine months ended September 30, 2007, the Company earned $2,114 and $3,242, respectively in fee income from its unconsolidated joint ventures, as compared to $657 and $1,747 for the three and nine months ended September 30, 2006, respectively. These fees are reflected on the accompanying consolidated statements of operations as fee income from unconsolidated joint ventures.

The operations of properties contributed to the joint ventures by the Company are not recorded as discontinued operations because of the Company's continuing involvement with these shopping centers. Differences between the

Company's investment in the joint ventures and the amount of the underlying equity in net assets of the joint ventures are due to basis differences resulting from the Company's equity investment recorded at its historical basis versus the fair value of certain of the Company's contributions to the joint venture. Such differences are amortized over depreciable lives of the joint venture's property assets. During the nine months ended September 30, 2007 and 2006, the Company recorded $1,064 and $1,030, respectively, of amortization of this basis difference.

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

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

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

		September 30, 2007	December 31, 2006
Balance Sheet:			
Assets:			
Investment in real estate, net	$	648,145	540,721
Other assets		41,442	33,647
Total assets	$	689,587	574,368
Liabilities:			
Mortgage payable	$	394,225	317,949
Other liabilities		34,812	32,398
Total liabilities		429,037	350,347
Total equity		260,550	224,021
Total liabilities and equity	$	689,587	574,368

		Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Statement of Operations:					
Total revenues	$	18,233	13,490	52,409	38,919
Total expenses		(16,768)	(13,046)	(45,876)	(36,217)
Income from continuing operations	$	1,465	444	6,533	2,702

Inland s pro rata share (a)	$	930	553	3,873	2,419

(a)

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

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(4) Mortgages Receivable

On June 30, 2005, the Company entered into a buy-out and restructuring agreement, which amended the previous LLC agreement with a wholly owned subsidiary of Tri-Land Properties, Inc., dated February 1, 2001. The Company is a lender to the wholly owned subsidiary of Tri-Land Properties, Inc. for this redevelopment project. The Company agreed to lend Tri-Land Properties, Inc. up to $21,500. Draws on the loan bear interest at a rate of 8.5% per annum, with 5.5% to be paid currently and the remaining 3% to be accrued, with no additional interest, and paid upon maturity. The loan matures on June 30, 2008. As of September 30, 2007, the balance of this mortgage receivable was $20,330. The loan is secured by the investment property and Tri-Land Properties, Inc. has guaranteed $1,000 of this mortgage receivable. The Company recorded a deferred gain of $3,193 on the sale of its equity investment related to the previous joint venture agreement, as it did not qualify for gain recognition due to the lack of initial investment and continuing involvement. Such amounts are included in other liabilities on the accompanying consolidated balance sheets. Additionally, the Company has recorded $1,163 of interest income for the nine months ended September 30, 2007 and has increased the mortgage receivable balance for unpaid interest by $2,788 since inception.

On October 26, 2006, the Company purchased a 25%, or $10,369, participation interest in a note receivable from Inland American Real Estate Trust, Inc. (IARETI), a related party of The Inland Group, Inc. The loan bears interest at a rate of 9.25% per annum and matures on September 30, 2007. The loan is secured by land owned by the borrower and the borrower has personally guaranteed the balance of the loan. In October 2007, IARETI paid the note and related interest due under the agreement. The Company recorded $726 of interest income for the nine months ended September 30, 2007.

(5) Transactions with Related Parties

During the nine months ended September 30, 2007 and 2006, the Company purchased various administrative services, such as payroll preparation and management, data processing, insurance consultation and placement, property tax reduction services and mail processing from, or through, affiliates of The Inland Group, Inc. The Company pays for these services on an hourly basis. The hourly rate is based on the salary of the individual rendering the services, plus a pro rata allocation of overhead including, but not limited to, employee benefits, rent, materials, fees, taxes and operating expenses incurred by each entity in operating their respective businesses. Computer services were purchased at a contract rate of $60 per hour. The Company continues to purchase all of these services from The Inland Group, Inc. and its affiliates and for the nine months ended September 30, 2007 and 2006, these payments totaled $1,055 and $523 respectively. The payments to Inland affiliates increased during the nine months ended September 30, 2007, as compared to the nine months ended September 20, 2006, 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 nine months ended September 30, 2007 and 2006 were $255 during each period, and are included in general and administrative expenses. The Inland Group, Inc., through affiliates, owns approximately 10.8% of the Company's outstanding common stock. For accounting purposes however, the Company is not directly affiliated with The Inland Group, Inc. or its affiliates.

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 $118 and $138 for these services during the nine months ended September 30, 2007 and 2006, 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. provides assistance in the marketing of the Company's investment properties and provides representation at various trade shows and conventions.

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

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

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), a related party of The Inland Group, Inc. In October 2007, IARETI paid the note and related interest due under the agreement.

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(6) Discontinued Operations

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

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

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

On the accompanying consolidated balance sheets at September 30, 2007 and December 31, 2006, the Company has recorded $352 and $44, respectively of assets related to discontinued operations and $241 and $2, respectively of liabilities related to discontinued operations. These amounts are reflected as a component of other assets and other liabilities on the accompanying consolidated balance sheets. Additionally, for the three and nine months ended September 30, 2007, the Company has recorded income from discontinued operations of $2 and $1,356, respectively, including gains on sale of $0 and $1,223. For the three and nine months ended September 30, 2006, the Company recorded income from discontinued operations of $4,041 and $6,693, respectively, including gains on sale of $3,883 and $6,017.

(7) Operating Leases

Certain tenant leases contain provisions providing for "stepped" rent increases. U.S. GAAP requires the Company to record rental income for the period of occupancy using the effective monthly rent, which is the average monthly rent for the entire period of occupancy during the term of the lease. The accompanying consolidated financial statements include increases of $584 and $606, respectively, for the nine months ended September 30, 2007 and 2006, respectively, of rental income for the period of occupancy for which stepped rent increases apply and $18,191 and $17,607 in related accounts and rents receivable as of September 30, 2007 and December 31, 2006, respectively. The Company anticipates collecting these amounts over the terms of the leases as scheduled rent payments are made.

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(8) Mortgages Payable

Mortgage loans outstanding as of September 30, 2007 were $599,874 and had a weighted average interest rate of 5.47%. Of this amount, $556,384 had fixed rates ranging from 3.99% to 9.25% and a weighted average fixed rate of 5.37% as of September 30, 2007. The remaining $43,490 of mortgage debt represented variable rate loans with a weighted average interest rate of 6.65% as of September 30, 2007. As of September 30, 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, 2011 and thereafter, based on debt outstanding at September 30, 2007 and weighted average interest rates for the debt maturing in each specified period.

	2007	2008	2009	2010	2011	Thereafter
Maturing debt:						
Fixed rate debt	$ 27,425	$ 99,804	$ 25,227	$ 166,960	$ 100,000	$ 136,968
Variable rate debt	8,948	-	-	28,342	-	6,200
Weighted average interest rate on maturing debt:						
Fixed rate debt	6.26%	6.56%	6.43%	4.77%	4.59%	5.44%
Variable rate debt	7.47%	-	-	6.93%	-	4.23%

(9) Line of Credit

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

On April 22, 2005, the Company completed a second amendment to this line of credit. The aggregate commitment of the Company's line is $400,000, which includes a $250,000 accordion feature, and matures on April 22, 2008. The Company pays interest only on draws under the line at the rate equal to 120 160 basis points over LIBOR. The Company is also required to pay, on a quarterly basis, an amount less than 1% per annum on the average daily funds remaining under this line. In conjunction with this amendment, the Company paid approximately $541 in fees and costs. The outstanding balance on the line of credit was $80,000 and $28,000 as of September 30, 2007 and December 31, 2006, respectively.

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

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(10)

Convertible Notes

On November 13, 2006, the Company issued $180,000 aggregate principal amount of 4.625% convertible senior notes due 2026, which included the exercise by the initial purchasers of their option to purchase an additional $10,000 to cover over-allotments. The Company received net proceeds of approximately $177,300 after deducting selling discounts and commissions. The Company used the net proceeds from the offering to repurchase 2,776 shares of its common stock at a price equal to $18.01 per share (approximately $50,000 in the aggregate) concurrently with the closing of the offering. The Company also used the net proceeds to repay approximately $120,000 in outstanding indebtedness under the Company s revolving credit facility with KeyBank National Association. The Company used the remaining net proceeds for general corporate purposes, including 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 Company may not redeem the notes prior to the date on which they mature except to the extent necessary to preserve its status as a REIT. Following the occurrence of certain change in control transactions, the Company may be required to repurchase the notes in whole or in part for cash at 100% of the principal amount of the notes to be repurchased plus accrued and unpaid interest. At September 30, 2007, the Company has recorded $3,214 of accrued interest related to the convertible notes. This amount is included in accrued interest on the Company's consolidated balance sheets at September 30, 2007.

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

(11) Earnings per Share

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

As of September 30, 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 September 30, 2007 and December 31, 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. These options were not included in the computation of basic or diluted EPS as the effect would be immaterial. Convertible notes are included in the computation of diluted EPS using the if-converted method, to the extent the impact of conversion is dilutive.

The basic weighted average number of common shares outstanding were 65,193 and 67,574 for the nine months ended September 30, 2007 and 2006, respectively. The diluted weighted average number of common shares outstanding were 65,260 and 67,643 for the nine months ended September 30, 2007 and 2006, respectively.

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(12) Deferred Stock Compensation

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

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

Fiscal year shares issued	Shares issued pursuant to employment agreements	Shares issued pursuant to employment incentives	Average share price on the date of issuance	Aggregate value of shares issued pursuant to employment agreements	Aggregate value of shares issued pursuant to employment incentives	Deferred stock compensation
Prior to 2004	5	-	$ 11.00	$ 60	$ -	$ -
2004	32	15	12.93	411	193	205
2005	19	11	15.18	290	167	241
2006	8	8	16.01	129	130	194
2007	5	6	17.36	92	95	169
	69	40		$ 982	$ 585	$ 809

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 $303 and $184 were recorded in connection with the vesting of these shares, for the nine months ended September 30, 2007 and 2006, respectively.

(13) Segment Reporting

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

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.

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(14) Commitments and Contingencies

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

(15) Subsequent Events

On October 1, 2007 the Company terminated its participation interest in a note receivable purchased from Inland American Real Estate Trust, Inc. ("IARETI"). The Company received the principal balance of $10,369 and interest due on the note through September 30, 2007.

On October 17, 2007, the Company paid a cash distribution of $0.08167 per share on the outstanding shares of its common stock to stockholders of record at the close of business on October 1, 2007.

On October 17, 2007, the Company announced that it had declared a cash distribution of $0.08167 per share on the outstanding shares of its common stock. This distribution is payable on November 19, 2007 to the stockholders of record at the close of business on October 31, 2007.

On October 19, 2007, the Company purchased Greenfield Commons from an unaffiliated third party for approximately $6,000. The acquisition was completed through the Company's joint venture with IREX. The property is located in Aurora, Illinois and contains 32,258 square feet of leasable area. The two-tenant building is leased to Office Depot and Factory Card & Party Outlet.

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Item 2.

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

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

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

This section provides the following:

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

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

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

Executive Summary

We are an owner/operator of neighborhood, 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 September 30, 2007, we owned interests in 149 investment properties, including those owned through our unconsolidated joint ventures.

Essentially all of our revenues and cash flows are generated by collecting rental payments from our tenants. Our goal is to continue increasing our revenues by acquiring additional investment properties and re-leasing those spaces that are vacant, or may become vacant, at existing properties, at more favorable rental rates. During the nine months ended September 30, 2007, we executed 64 new and 161 renewal leases, aggregating approximately 827,000 square feet. The 64 new leases comprise approximately 204,000 square feet with an average rental rate of $20.52 per square foot, a 36.9% increase over the average expiring rate. The 161 renewal leases comprise approximately 623,000 square feet with an average rental rate of $15.97 per square foot, a 20.6% increase over the average expiring rate. During 2008, there are 256 leases expiring which comprise approximately 1,146,000 square feet and account for approximately 7.6% 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 have the ability to obtain financing proceeds of at least $97,300 from 36 currently unencumbered investment properties.

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

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

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

We look at several factors to measure our operating performance:

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

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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.

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

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company-wide growth in income or FFO;

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same store growth in income; and

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general and administrative expenses as a percentage of investment in properties.

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

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

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length of time required to fill vacancies;

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possibly releasing at rental rates lower than current market rates;

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

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paying operating expenses without tenant reimbursements.

Strategies and Objectives

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

Acquisitions:

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

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

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

Joint Ventures:

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

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

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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:

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

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

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

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

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

Acquisitions and Dispositions

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

Acquisitions during the nine months ended September 30, 2007:

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

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

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

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

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63.29 acres of vacant land through our joint venture with North American Real Estate for approximately $23,000;

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One investment property totaling 113,700 square feet, for approximately $5,000 in aggregate for our joint venture with Pine Tree Institutional Realty, LLC; and

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One investment property totaling approximately 30,000 square feet, for approximately $10,871 in the aggregate.

Dispositions during the nine months ended September 30, 2007:

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

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One investment property.

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

Acquisitions during the year ended December 31, 2006:

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

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

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

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

Dispositions during the year ended December 31, 2006:

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

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Four investment properties.

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

Critical Accounting Policies

General

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Liquidity and Capital Resources

This section describes our balance sheet and discusses our liquidity and capital commitments. Our most liquid asset is cash and cash equivalents which consists of cash and short-term investments. Cash and cash equivalents at September 30, 2007 and December 31, 2006 were $24,183 and $27,569, respectively. See our discussion of the statements of cash flows for a description of our cash activity during the nine months ended September 30, 2007 and 2006. We consider all demand deposits, money market accounts and investments in certificates of deposit and repurchase agreements purchased with a maturity of three months or less, at the date of purchase, to be cash equivalents. We maintain our cash and cash equivalents at financial institutions. The combined account balances at one or more institutions periodically exceed the Federal Depository Insurance Corporation ("FDIC") insurance coverage and, as a result, there is a concentration of credit risk related to amounts on deposits in excess of FDIC insurance coverage. We believe that the risk is not significant, as we do not anticipate the financial institutions' non-performance.

Income generated from our investment properties is the primary source from which we generate cash. Other sources of cash include amounts raised from the sale of securities under our Dividend Reinvestment Plan ("DRP"), our draws on the line of credit with KeyBank N.A., which may be limited due to covenant compliance requirements, proceeds from financings secured by our investment properties and earnings we retain that are not distributed to our stockholders. As of September 30, 2007, we had approximately $70,000 available under our $150,000 line of credit. If necessary, such as for new acquisitions, we believe we can generate cash flow by entering into financing arrangements or joint ventures with institutional investors. During the year ended December 31, 2006, we issued $180,000 aggregate principal amount of 4.625% convertible notes due in 2026. Net proceeds from the convertible notes were used to pay down our line of credit with KeyBank N.A. by $120,000 and we also repurchased 2,776 shares of our common stock at a price equal to $18.01 per share (approximately $50,000 in the aggregate). We use our cash primarily to pay distributions to our stockholders, for operating expenses at our investment properties, for purchasing additional investment properties, joint venture commitments and to repay draws on the line of credit.

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

We invest in marketable securities of other REITs as well as non-REIT entities. We had investments in securities of $22,088 at September 30, 2007, consisting of preferred and common stock investments. As of September 30, 2007, we had accumulated other comprehensive loss of $1,260. Realized gains and losses from the sale of available-for-sale securities are specifically identified and determined. During the nine months ended September 30, 2007 and 2006, we realized gains on sale of $135 and 254, respectively. Additionally, during the nine months ended September 30, 2007, the Company realized a loss of $215 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 three and nine months ended September 30, 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 September 30, 2007, we owned interests in 149 investment properties, including those owned through our unconsolidated joint ventures. Of the 149 investment properties owned, 36 are currently unencumbered by any indebtedness. These 36 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 36 unencumbered investment properties were purchased for an aggregate purchase price of approximately $217,470 and would, therefore, yield at least $108,735 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. In the aggregate, all of our 149 investment properties are currently generating sufficient cash flow to pay our operating expenses, debt service requirements and distributions equal to $0.98 per share on an annual basis.

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

2007	$	38,191
2008 (a)		184,870
2009		29,519
2010		195,841
2011		100,573
Thereafter (b)		310,880
Total	$	859,874

(a)

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

(b)

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

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

		2007	2006
Net cash provided by operating activities	$	66,166	56,005
Net cash used in investing activities	$	(115,591)	(97,086)
Net cash provided by financing activities	$	46,039	32,614

Statements of Cash Flows

2007 Compared to 2006

Net cash provided by operating activities during the nine months ended September 30, 2007 increased $10,161, as compared to the nine months ended September 30, 2006. This increase in cash is due primarily to an increase in cash flows from operations generated by properties acquired during 2007 and 2006, subsequent to their acquisitions and operating distributions received from the operations of our joint ventures. Additionally, we received cash from the sale of TIC interests in properties through our joint venture with Inland Real Estate Exchange Corporation (IREX) during the nine months ended September 30, 2007. This increase was offset by the payment of larger common area maintenance expenses on our investment properties due primarily to increased snow removal costs incurred during the nice months ended September 30, 2007, as compared to the nine months ended September 30, 2006.

Net cash used in investing activities increased by $18,505 as we acquired six investment properties, of which five were for our joint venture with Inland Real Estate Exchange Corporation (IREX), during the nine months ended September 30, 2007 at a cost of $111,400 and completed $12,035 in additions to our investment properties, as compared to the acquisition of five investment properties during the nine months ended September 30, 2006 at a cost of $74,623 and the completion of $20,193 in additions to our investment properties. Additionally, we increased our investment in unconsolidated joint ventures by $25,978, primarily for the purchase of vacant land through our development joint ventures and paid approximately $1,843 for the purchase of computers and software. Certain payments in relation to our computer and software purchase were made to affiliates of the Inland Group, Inc for development and implementation support. Offsetting this increase in cash used is proceeds received during the nine months ended September 30, 2007 for the sale of our interest in one of our unconsolidated joint ventures, the sale of vacant land through another and additional distributions from our unconsolidated joint venture activities. Additionally, we received $30,304 from the sale of TIC interests of properties owned through our joint venture with IREX.

Net cash provided by financing activities during the nine months ended September 30, 2007 increased $13,425, as compared to the nine months ended September 30, 2006. The increase in cash provided by financing activities is primarily due to net loan proceeds of $69,133, as compared to net loan proceeds of $25,080 during the nine months ended September 30, 2006. Additionally, we received $3,160 more in proceeds from our DRP during the nine months ended September 30, 2007, as compared to the nine months ended September 30, 2006. This increase is offset by a decrease of $10,034 for the purchase of minority interest units and of $25,000 in net proceeds from our unsecured line of credit during the nine months ended September 30, 2007, as compared to the nine months ended September 30, 2006.

Results of Operations

This section describes and compares our results of operations for the three and nine months ended September 30, 2007 and 2006, respectively. At September 30, 2007, we had ownership interests in 30 Single-user retail properties, 70 Neighborhood Retail 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 three month periods during each year. A total of 123 of our investment properties satisfied these criteria during the periods presented and are referred to herein as "same store" properties. These properties comprise approximately 10.3 million square feet. A total of twelve investment properties, those that have been acquired during the nine months ended September 30, 2007 and the year ended December 31, 2006 are presented as "other investment properties" in the table below. The "same store" investment properties represent approximately 70% of the square footage of our portfolio at September 30, 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 three and nine months ended September 30, 2007 and 2006 are summarized below:

		Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net income available to common stockholders	$	10,032	14,626	32,430	36,744
Net income available to common stockholders per weighted average common share basic and diluted	$	0.15	0.22	0.50	0.54
Weighted average number of common shares outstanding basic		65,361	67,668	65,193	67,574
Weighted average number of common shares outstanding diluted		65,422	67,737	65,260	67,643

Net income decreased $4,594 and $4,314 for the three and nine months ended September 30, 2007, as compared to the three and nine months ended September 30, 2006, respectively. Net income for the three and nine months ended September 30, 2006, was impacted by gains on sale of investment properties during these periods that exceeded gains during the three and nine months ended September 30, 2007 by $3,883 and $4,794, respectively. Additionally interest expense for the three and nine months ended September 30, 2007 increased as compared to the three and nine months ended September 30, 2006 due primarily to interest on our convertible notes. The decreases in net income for the three and nine months ended September 30, 2007 are partially offset by increases in fee income, gain on sale of joint venture interests and vacant land from our unconsolidated joint ventures.

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 three and nine months ended September 30, 2007 and 2006 along with reconciliation to income from continuing operations, calculated in accordance with U.S. GAAP.

		Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Rental income and tenant recoveries:					
"Same store" investment properties, 123 properties					
Rental income	$	30,284	30,209	90,046	89,940
Tenant recovery income		11,598	10,926	36,205	34,032
Other property income		562	407	2,503	857
"Other investment properties					
Rental income		2,450	1,942	7,524	5,046
Tenant recovery income		520	267	1,525	1,138
Other property income		3	(4)	66	1
Total rental income and tenant recoveries	$	**45,417**	**43,747**	**137,869**	**131,014**
Property operating expenses:					
"Same store" investment properties, 123 properties					
Property operating expenses	$	4,922	4,166	17,239	13,570
Real estate tax expense		7,965	7,731	23,510	23,424
"Other investment properties"					
Property operating expenses		395	187	751	660
Real estate tax expense		305	134	879	671
Total property operating expenses	$	**13,587**	**12,218**	**42,379**	**38,325**
Property net operating income					
"Same store" investment properties	$	29,557	29,645	88,005	87,835
"Other investment properties"		2,273	1,884	7,485	4,854
Total property net operating income	$	**31,830**	**31,529**	**95,490**	**92,689**
Other income:					
Straight-line income		(195)	348	425	613
Amortization of lease intangibles		218	148	390	492
Other income		1,300	1,405	3,840	4,219
Fee income from unconsolidated joint ventures		2,114	872	3,242	1,307
Gain on sale of investment properties		-	132	-	623
Gain on extinguishment of debt		-	-	319	-

Gain on sale of joint venture interest		-	-	2,228	-
Other expenses:					
Income tax expense of taxable REIT subsidiary		(229)	-	(654)	(53)
Bad debt expense		(301)	(227)	(855)	(747)
Depreciation and amortization		(10,842)	(10,137)	(31,926)	(30,591)
General and administrative expenses		(2,506)	(2,415)	(8,871)	(7,422)
Interest expense		(12,172)	(11,429)	(36,091)	(32,688)
Minority interest		(117)	(194)	(336)	(810)
Equity in earnings of unconsolidated ventures		930	553	3,873	2,419
Income from continuing operations	$	**10,030**	**10,585**	**31,074**	**30,051**

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On a "same store" basis, (comparing the results of operations of the investment properties owned during the three and nine months ended September 30, 2007 with the results of the same investment properties during the three and nine months ended September 30, 2006), property net operating income decreased by $88 with total rental income, tenant recoveries and other property income increasing by $902 and total property operating expenses increasing by $990 for the three months ended September 30, 2007. Property net operating income increased by $170 with total rental income, tenant recoveries and other property income increasing by $3,925 and total property operating expenses increasing by $3,755 for the nine months ended September 30, 2007.

Total rental income, tenant recoveries and other property income for the three months ended September 30, 2007 and 2006 were $45,417 and $43,747 respectively, and for the nine months ended September 30, 2007 and 2006, these amounts were $137,869 and 131,014, respectively. The primary reasons for the increase in rental and additional rental income for the three and nine months ended September 30, 2007, as compared to the three and nine months ended September 30, 2006 was positive leasing spreads on our "same store" properties and income received on our "other investment properties." Additionally, other property income increased during these periods. Other property income is comprised of lease termination fees, late fees and costs recovered on expenses directly related to specific tenants.

Total property operating expenses for the three months ended September 30, 2007 and 2006 were $13,587 and $12,218, respectively, and for the nine months ended September 30, 2007, these amounts were $42,379 and 38,325, respectively. For the nine months ended September 30, 2007 and 2006, the increase in expenses is due primarily to an increase in common area maintenance expenses on our "same store" portfolio of properties, due in most part to higher snow removal costs in first quarter 2007, as compared to 2006. For the three months ended September 30, 2007 and 2006, the increase is due to an increase in payroll and other payroll related items as well as expenses recovered directly from specific tenants.

General and administrative expenses increased $91 and $1,449, for the three and nine months ended September 30, 2007, as compared to the three and nine months ended September 30, 2006, respectively. 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 nine months ended September 30, 2007, as compared to the nine months ended September 30, 2006 due to additional costs for the annual ICSC convention, which included more space to accommodate our new booth.

Fee income from unconsolidated joint ventures increased $1,457 and $1.495 for the three and nine months ended September 30, 2007 and 2006, respectively. This increase is due to acquisition fees earned on the properties acquired by our joint venture with Inland Real Estate Exchange Corporation and management fees earned on an increased number of properties owned through our unconsolidated joint ventures.

Interest expense increased $743 and $3,403 for the three and nine months ended September 30, 2007, as compared to the three and nine months ended September 30, 2006. This increase is due to interest due for the convertible notes issued in November 2006. We issued these convertible notes in order to take advantage of lower interest rates going forward. 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 respective period.

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 by 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. 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 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.

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 variable interest entity 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		September 30, 2007	December 31, 2006
Crow Holdings Managers, LLC	-		-	1,219
New York State Teachers' Retirement System	50%	$	61,870	64,556
North American Real Estate, Inc.	45%		6,648	4,350
Oak Property and Casualty	25%		614	227
TMK Development	40%		4,116	-
Paradise Development Group, Inc.	15%		5,870	-
Pine Tree Institutional Realty, LLC	85%		4,425	-
Tucker Development Corporation (a)	48%		6,951	-
Inland Real Estate Exchange Corporation	50%		1,117	4,538
Investment in and advances to joint ventures		$	91,611	74,890

Our proportionate share of the earnings or losses related to these ventures is reflected as equity in earnings of unconsolidated joint ventures on the accompanying consolidated statements of operations. Additionally, we earn fees for providing property management, leasing and acquisition activities to these ventures. We recognize only our share of these fees in the accompanying consolidated statements of operations. During the three and nine months ended

September 30, 2007, we earned $2,114 and $3,242 in fee income from our unconsolidated joint ventures, as compared to $872 and $1,307 for the three and nine months ended September 30, 2006. These fees are reflected on the accompanying consolidated statements of operations as fee income from unconsolidated joint ventures.

The operations of properties contributed to the joint ventures by us are not recorded as discontinued operations because of our continuing involvement with these shopping centers. Differences between our investment in the joint ventures and the amount of the underlying equity in net assets of the joint ventures are due to basis differences resulting from our equity investment recorded at its historical basis versus the fair value of certain of our contributions to the joint venture. Such differences are amortized over depreciable lives of the joint venture's property assets. During the nine months ended September 30, 2007 and 2006, we recorded $1,064 and $1,030, respectively, of amortization of this basis difference.

During the nine months ended September 30, 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.

During the nine months ended September 30, 2007, we sold, through our joint venture with TMK Development, an additional parcel of land to a third party for approximately $5,040. 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.

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:

		Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net income available to common stockholders	$	10,032	14,626	32,430	36,744
Gain on sale of investment properties, net of minority interest		-	(4,015)	(1,223)	(6,406)
Gain on non-operating property, net of minority interest		-	-	-	157
Equity in depreciation of unconsolidated joint ventures		2,740	2,476	7,582	6,638
Amortization on in-place lease intangibles		604	755	2,247	2,253
Amortization on leasing commissions		198	201	560	574
Depreciation, net of minority interest		9,274	9,155	28,295	27,640
Funds From Operations	$	22,848	23,198	69,891	67,600
Net income available to common stockholders per weighted average common share basic and diluted	$	0.15	0.22	0.50	0.54

Funds From Operations, per weighted average common share basic and diluted	$	0.35	0.34	1.07	1.00
Weighted average number of common shares outstanding, basic		65,361	67,668	65,193	67,574
Weighted average number of common shares outstanding, diluted		65,422	67,737	65,260	67,643

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We believe EBITDA is useful to us and to an investor as a supplemental measure in evaluating our financial performance because it excludes expenses that we believe may not be indicative of our operating performance. EBITDA is defined as earnings (losses) from operations excluding: (1) interest expense; (2) income tax benefit or expenses; (3) depreciation and amortization. By excluding interest expense, EBITDA measures our financial performance regardless of how we finance our operations and capital structure. By excluding depreciation and amortization expense, we believe we can more accurately assess the performance of our portfolio. Because EBITDA is calculated before recurring cash charges such as interest expense and taxes and is not adjusted for capital expenditures or other recurring cash requirements, it does not reflect the amount of capital needed to maintain our properties nor does it reflect trends in interest costs due to changes in interest rates or increases in borrowing. EBITDA should be considered only as a supplement to net earnings and may be calculated differently by other equity REITs.

		Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Income from continuing operations	$	10,030	10,585	31,074	30,051
Gain on non-operating property		-	(132)	-	(623)
Income tax expense of taxable REIT subsidiary		229	-	654	53
Income from discontinued operations		2	158	133	676
Interest expense		12,172	11,429	36,091	32,688
Interest expense associated with discontinued operations		-	99	131	340
Interest expense associated with unconsolidated joint ventures		2,119	1,760	5,689	4,895
Depreciation and amortization		10,842	10,137	31,926	30,591
Depreciation and amortization associated with discontinued operations		-	107	106	440
Depreciation and amortization associated with unconsolidated joint ventures		2,740	2,476	7,582	6,638
EBITDA	$	38,134	36,619	113,386	105,749
Total Interest Expense	$	14,291	13,288	41,911	37,923
EBITDA: Interest Expense Coverage Ratio	$	2.7x	2.8x	2.7x	2.8x

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The following table lists the approximate physical occupancy levels for our wholly-owned investment properties as of the end of each quarter during 2007 and 2006. N/A indicates we did not own the investment property at the end of the quarter.

Properties	Gross Leasable Area (Sq Ft)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)	12/31/06 (%)	03/31/07 (%)	06/30/07 (%)	09/30/07 (%)
22nd St. Plaza Outlot, Oakbrook Terrace, IL	10,047	99	99	99	99	99	99	99
Ameritech, Joliet, IL	4,504	100	100	100	100	100	100	100
Apache Shoppes, Rochester, MN	60,780	N/A	N/A	N/A	96	96	100	100
Apria Healthcare, Schaumburg, IL	40,906	N/A	N/A	N/A	N/A	N/A	100	100
Aurora Commons, Aurora, IL	126,908	98	97	97	89	90	94	95
Bally's Total Fitness, St Paul, MN	43,000	100	100	100	100	100	100	100
Baytowne Square, Champaign, IL	118,542	98	98	97	99	100	100	100
Bergen Plaza, Oakdale, MN	262,720	94	96	95	88	86	85	92(a)
Berwyn Plaza, Berwyn, IL	18,138	100	100	100	100	100	100	100
Big Lake Town Square, Big Lake, MN	67,858	100	100	100	100	100	100	100
Bohl Farm Marketplace, Crystal Lake, IL	97,287	100	100	100	100	100	100	100
Brunswick Market Center, Brunswick, OH	119,540	94	94	97	95	95	93	100
Burnsville Crossing, Burnsville, MN	97,310	99	99	99	99	92	92	92
Butera Market, Naperville, IL	67,632	100	100	100	100	100	100	100
Byerly's Burnsville, Burnsville, MN	72,365	96	100	96	96	96	96	96
Carmax, Schaumburg, IL	93,333	100	100	100	100	100	100	100
Carmax, Tinley Park, IL	94,518	100	100	100	100	100	100	100
Caton Crossing, Plainfield, IL	83,792	96	96	96	96	96	96	96
	170,027	99	99	99	100	99	100	99

Chestnut Court, Darien, IL								
Circuit City, Traverse City, MI	21,337	0	0	0	0	0	0	0(a)
Cliff Lake Centre, Eagan, MN	73,582	95	95	92	96	94	92	93(a)
Crystal Point, Crystal Lake, IL	339,898	100	100	100	100	100	100	100
Cub Foods, Buffalo Grove, IL	56,192	100	100	100	100	100	100	100
Cub Foods, Hutchinson, MN	60,208	0	0	0	0	0	0	0(a)
Cub Foods, Indianapolis, IN	67,541	0	0	0	0	0	0	0(a)
Cub Foods, Plymouth, MN	67,510	100	100	100	100	100	100	100
Cub Foods, Arden Hills, MN	68,442	100	100	100	100	100	100	100
Deer Trace, Kohler, WI	149,881	100	100	100	98	98	98	98
Deer Trace II, Kohler, WI	24,410	100	100	100	100	100	100	100
Delavan Crossing, Delavan, WI	60,930	N/A	N/A	N/A	N/A	N/A	100	100
Disney, Celebration, FL	166,131	100	100	100	100	100	100	100
Dominick's, Countryside, IL	62,344	100	100	100	100	100	100	100

Properties	Gross Leasable Area (Sq Ft)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)	12/31/06 (%)	03/31/07 (%)	06/30/07 (%)	09/30/07 (%)
Dominick's, Glendale Heights, IL	68,879	100	100	100	100	100	100	0(a)
Dominick's, Hammond, IN	71,313	100	100	100	100	100	100	100
Dominick's, Schaumburg, IL	71,400	100	100	100	100	100	100	100
Dominick's, West Chicago, IL	78,158	0	0	0	100	100	100	100
Downers Grove Mkt, Downers Grove, IL	104,449	100	99	99	99	100	100	100
Eastgate Shopping Center, Lombard, IL	131,601	84	86	85	85	83	83	84
Eckerd Drug, Chattanooga, TN	10,908	100	100	100	100	100	100	100

Edinburgh Festival, Brooklyn Park, MN	91,536	97	97	97	97	97	94	89(a)
Elmhurst City Center, Elmhurst, IL	39,090	100	100	100	100	100	100	100
Fashion Square, Skokie, IL	84,580	92	92	100	100	100	100	100
Fashion Square II, Skokie, IL	7,151	100	100	100	100	100	100	100
Four Flaggs, Niles, IL	306,661	85	85	85	95	81	74	82
Four Flaggs Annex, Niles, IL	21,425	100	100	100	100	100	100	100
Gateway Square, Hinsdale, IL	40,170	100	100	100	100	100	100	100
Goodyear, Montgomery, IL	12,903	100	100	100	100	100	100	100
Grand and Hunt Club, Gurnee, IL	21,222	100	100	100	100	100	100	100
Hartford Plaza, Naperville, IL	43,762	95	95	100	100	100	100	100
Hawthorn Village, Vernon Hills, IL	98,806	96	83	95	83	82	82	96
Hickory Creek Market, Frankfort, IL	55,831	89	87	86	86	83	83	80
High Point Center, Madison, WI	86,004	88	88	88	78	70	70	70
Hollywood Video, Hammond, IN	7,488	100	100	100	100	100	100	100
Home Goods Store, Coon Rapids, MN	25,145	100	100	100	100	100	100	100
Homewood Plaza, Homewood, IL	19,000	100	100	100	100	100	100	100
Iroquois Center, Naperville, IL	140,981	98	97	95	95	95	96	97
Joliet Commons, Joliet, IL	158,922	100	100	100	100	100	92	100
Joliet Commons Phase II, Joliet, IL	40,395	100	100	100	100	100	100	100
Lake Park Plaza, Michigan City, IN	229,639	72	72	72	72	72	72	72(a)
Lansing Square, Lansing, IL	233,508	89	89	71	88	59	58	58(a)
Mallard Crossing, Elk Grove Village, IL	82,929	100	100	100	100	97	97	97
Mankato Heights, Mankato, MN	139,916	97	97	99	99	98	99	99(a)

Maple Grove Retail, Maple Grove, MN	79,130	97	97	97	97	91	91	91
Maple Park Place, Bolingbrook, IL	218,762	97	100	100	100	100	100	100
Maple Plaza, Downers Grove, IL	31,196	95	95	89	89	89	95	95
Medina Marketplace, Medina, OH	72,781	100	100	100	100	100	100	100
Michael's, Coon Rapids, MN	24,240	100	100	100	100	100	100	100

Properties	Gross Leasable Area (Sq Ft)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)	12/31/06 (%)	03/31/07 (%)	06/30/07 (%)	09/30/07 (%)
Mundelein Plaza, Mundelein, IL	16,803	100	100	100	100	100	100	100
Nantucket Square, Schaumburg, IL	56,981	92	98	77	77	79	79	100
Naper West, Naperville, IL	164,812	89	89	95	88	87	68	76(a)
Naper West Ph II, Naperville, IL	50,000	73	73	73	73	73	73	73
Niles Shopping Center, Niles, IL	26,109	99	87	87	95	86	86	86
Northgate Center, Sheboygan, WI	73,647	96	96	99	98	98	98	98
Oak Forest Commons, Oak Forest, IL	108,330	98	98	99	99	93	93	93
Oak Forest Commons III, Oak Forest, IL	7,424	76	88	76	76	76	76	76
Oak Lawn Town Center, Oak Lawn, IL	12,506	100	100	100	100	100	100	100
Orland Greens, Orland Park, IL	45,031	58	61	97	91	89	97	97
Orland Park Retail, Orland Park, IL	8,500	100	100	100	100	100	100	100
Park Avenue Center, Highland Park, IL	64,943	61	61	61	67	67	67	67
Park Center Plaza, Tinley Park, IL	194,599	97	97	97	66	65	96	96
Park Place Plaza, St. Louis Park, MN	84,999	100	100	100	100	100	100	100

Park Square, Brooklyn Park, MN	137,109	50	82	88	94	92	95	94(a)
Park St. Claire, Schaumburg, IL	11,859	100	100	100	100	35	100	100
Petsmart, Gurnee, IL	25,692	100	100	100	100	100	100	100
Pine Tree Plaza, Janesville, WI	187,413	98	98	99	100	100	100	100(a)
Plymouth Collection, Plymouth, MN	45,915	100	100	100	100	100	89	89(a)
Quarry Outlot, Hodgkins, IL	9,650	100	100	100	67	19	19	51
Quarry Retail, Minneapolis, MN	281,648	99	99	99	99	99	99	99
Rainbow Foods, West St. Paul, MN	61,712	N/A	N/A	N/A	N/A	N/A	100	100
Riverdale Commons, Coon Rapids, MN	168,277	100	100	100	100	99	99	78(a)
Riverdale Outlot, Coon Rapids, MN	6,566	100	100	100	100	100	100	100
Riverplace Center, Noblesville, IN	74,414	98	98	98	100	100	100	98
River Square Center, Naperville, IL	58,260	92	94	92	92	78	87	87
Rivertree Court, Vernon Hills, IL	298,862	97	97	93	94	94	94	96
Rochester Marketplace, Rochester, MN	70,213	61	100	100	100	100	100	100
Rose Naper Plaza East, Naperville, IL	11,658	100	88	88	88	88	88	88
Rose Naper Plaza West, Naperville, IL	14,335	89	89	100	100	100	100	89
Rose Plaza, Elmwood Park, IL	24,204	100	100	100	100	100	100	100
Roundy s, Waupaca, WI	63,780	100	100	100	100	100	100	100
Salem Square, Countryside, IL	112,310	100	100	100	100	100	100	100
Schaumburg Plaza, Schaumburg, IL	61,485	91	91	91	91	91	87	92

Properties	Gross Leasable Area (Sq Ft)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)	12/31/06 (%)	03/31/07 (%)	06/30/07 (%)	09/30/07 (%)
Schaumburg Promenade, Schaumburg, IL	91,831	100	100	90	100	100	100	100

Shakopee Outlot, Shakopee, MN	12,285	N/A	N/A	N/A	N/A	N/A	100	100
Shakopee Valley, Shakopee, MN	146,430	100	100	99	99	99	99	99
Shannon Square Shoppes, Arden Hills, MN	29,196	100	100	96	84	92	92	88(a)
Shingle Creek, Brooklyn Center, MN	39,456	73	77	100	98	81	81	88(a)
Shops at Coopers Grove, Ctry Club Hills, IL	72,518	16	16	18	18	18	23	23
Shops at Grayhawk, Omaha, NB	227,350	100	98	96	96	96	93	95(a)
Shops at Orchard Place, Skokie, IL	165,141	97	97	97	95	94	94	94
Six Corners, Chicago, IL	80,650	95	95	97	97	97	97	94
Springboro Plaza, Springboro, OH	154,034	100	100	100	100	100	100	100
St. James Crossing, Westmont, IL	49,994	83	82	82	78	97	97	97
Staples, Freeport, IL	24,049	100	100	100	100	100	100	100
Stuart's Crossing, St. Charles, IL	85,529	95	95	95	95	93	93	93
Terramere Plaza, Arlington Heights, IL	40,965	74	74	74	78	87	87	97
Townes Crossing, Oswego, IL	105,989	97	97	98	98	100	98	100
Two Rivers Plaza, Bolingbrook, IL	57,900	100	100	100	100	100	100	100
United Audio Center, Schaumburg, IL	9,988	100	100	100	100	100	100	100
University Crossing, Mishawaka, IN	136,430	100	100	100	92	92	74	81
V. Richard's Plaza, Brookfield, WI	107,952	98	93	96	90	94	94	93(a)
Village Ten Center, Coon Rapids, MN	211,472	98	98	98	98	98	98	98
Walgreens, Decatur, IL	13,500	0	0	0	0	0	0	0(a)
Walgreens, Jennings, MO	15,120	100	100	100	100	100	100	100
Wauconda Crossing, Wauconda, IL	90,290	N/A	N/A	99	99	99	99	99
Wauconda Shopping Ctr, Wauconda, IL	31,037	100	100	31	31	31	100	76
West River Crossing, Joliet, IL	32,452	96	96	96	96	96	96	96
	11,974	83	83	83	83	83	100	100

Western and Howard, Chicago, IL								
Wilson Plaza, Batavia, IL	11,160	88	88	88	88	88	88	88
Winnetka Commons, New Hope, MN	42,415	81	88	87	87	91	91	91(a)
Wisner/Milwaukee Plaza, Chicago, IL	14,677	100	100	100	55	55	55	72
Woodfield Plaza, Schaumburg, IL	177,160	97	97	97	99	99	99	99
Woodland Commons, Buffalo Grove, IL	170,398	96	96	95	91	90	94	97(a)
Woodland Heights, Streamwood, IL	120,436	97	93	93	93	90	92	95
	11,037,318							

The following table lists the approximate physical occupancy levels for our investment properties in our unconsolidated joint ventures as of the end of each quarter during 2007 and 2006. N/A indicates the relevant joint venture did not own the investment property at the end of the quarter.

Properties	Gross Leasable Area (Sq Ft)	03/31/06 (%)	06/30/06 (%)	09/30/06 (%)	12/31/06 (%)	03/31/07 (%)	06/30/07 (%)	09/30/07 (%)
Algonquin Commons I, Algonquin, IL	562,218	85	96	96	97	95	89	90(a)
Chatham Ridge, Chicago, IL	175,754	99	99	69	69	69	69	67(a)
Cobblers Crossing, Elgin, IL	102,643	92	99	99	99	99	97	97
FMC Technologies, Houston, TX	462,717	N/A	N/A	N/A	N/A	100	100	100
Forest Lake Marketplace, Forest Lake, MN	93,853	100	100	100	100	100	100	100
Greentree Center & Outlot, Caledonia, WI	169,268	94	100	97	97	97	97	97
Mapleview, Grayslake, IL	114,914	92	91	91	92	92	94	94
Marketplace at Six Corners, Chicago, IL	117,000	100	100	100	100	100	100	100

Orland Park Place, Orland Park, IL	599,664	87	88	93	94	99	99	99
Randall Square, Geneva, IL	216,485	99	99	100	99	99	99	99
Ravinia Plaza, Orland Park, IL	101,384	N/A	N/A	N/A	81	81	86	82(b)
Regal Showplace, Crystal Lake, IL	88,400	96	96	96	100	100	100	100
Shoppes of Mill Creek, Palos Park, IL	102,422	99	100	100	99	96	96	96
Thatcher Woods, River Grove, IL	193,313	98	98	98	98	98	96	96
Woodfield Comm E/W, Schaumburg, IL	207,452	99	99	95	99	86	86	98(a)
	3,307,487							

(a)

We receive rent from tenants who have vacated but are still obligated under their lease terms, which results in economic occupancy ranging from 70% to 100% at September 30, 2007 for each of these centers.

(b)

We, from time to time, receive payments under master lease agreements covering spaces vacant at the time of acquisition. The payments range from one to two years from the date of acquisition of the property or until the space is leased and tenants begin paying rent. U.S. GAAP requires us to treat these payments as a reduction to the purchase price of the investment properties upon receipt of the payment, rather than as rental income. As of September 30, 2007, the Company had one investment property, Ravinia Plaza, located in Orland Park, Illinois subject to master lease agreements.

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Subsequent Events

On October 1, 2007 we terminated our participation interest in a note receivable purchased from Inland American Real Estate Trust, Inc. ("IARETI"). We received the principal balance of $10,369 and interest due on the note through September 30, 2007.

On October 17, 2007, 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 October 1, 2007.

On October 17, 2007, 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 November 19, 2007 to the stockholders of record at the close of business on October 31, 2007.

On October 19, 2007, we purchased Greenfield Commons from an unaffiliated third party for approximately $6,000. The acquisition was completed through our joint venture with IREX. The property is located in Aurora, Illinois and contains 32,258 square feet of leasable area. The two-tenant building is leased to Office Depot and Factory Card & Party Outlet.

Item 3.

Quantitative and Qualitative Disclosures about Market Risk

As of September 30, 2007 we had no material derivative instruments. We may enter into derivative financial instrument transactions in order to mitigate our interest rate risk on a related financial instrument. We may designate these derivative financial instruments as hedges and apply hedge accounting, as the instrument to be hedged will expose us to interest rate risk, and the derivative financial instrument will reduce that exposure. Gains or losses related to the derivative financial instrument would be deferred and amortized over the terms of the hedged instrument. If a derivative instrument terminates or is sold, the gain or loss is recognized. We will generally enter into derivative transactions that satisfy the aforementioned criteria only.

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

Our interest rate risk is monitored using a variety of techniques, including periodically evaluating fixed interest rate quotes on all variable rate debt and the costs associated with converting the debt to fixed rate debt. Also, existing fixed and variable rate loans which are scheduled to mature in the next year or two are evaluated for possible early refinancing or extension due to consideration given to current interest rates. The table below presents the principal amount of the debt maturing each year, including monthly annual amortization of principal, through December 31, 2011 and thereafter, based on debt outstanding at September 30, 2007 and weighted average interest rates for the debt maturing in each specified period.

	2007	2008	2009	2010	2011	Thereafter	Total
Fixed rate debt	29,243	104,870	29,519	167,499	100,573	304,680	736,384
Weighted average interest rate	6.26%	6.56%	6.43%	4.77%	4.59%	4.98%	
Variable rate debt	8,948	80,000	-	28,342	-	6,200	123,490
Weighted average interest rate	7.47%	7.16%	-	6.93%	-	4.23%	

The table above does not reflect indebtedness incurred after September 30, 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 mortgages payable is the amount at which the instrument could be exchanged in a current transaction between willing parties. The fair value of our mortgages is estimated to be $123,490 for mortgages which bear interest at variable rates and $711,571 for mortgages which bear interest at fixed rates. We estimate the fair value of our mortgages payable by discounting the future cash flows of each instrument at rates currently offered to us for similar debt instruments of comparable maturities by our lenders.

At September 30, 2007, approximately $123,490, or 14%, of our debt has variable interest rates averaging 6.98%. 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 $231 for the nine months ended September 30, 2007.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based on management s evaluation as of September 30, 2007, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective as of the date of evaluation to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Changes in Internal Control over Financial Reporting

There were no changes to our internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934, as amended) during the three months ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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. We have not adopted, and do not expect to adopt, any formal policies or procedures designed to manage risks associated with the use of derivative financial instruments. 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 nine months ended September 30, 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 were $152 from these swap contracts.

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

Not Applicable.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

Not Applicable.

Item 6.

Exhibits

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

Item No.

Description

3.1

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

3.2

Amended and Restated Bylaws of the Registrant (2)

41

31.1

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

31.2

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

32.1

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

32.2

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

(1)

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

(2)

Incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K dated November 9, 2007, as filed by the Registrant with the Securities and Exchange Commission on November 9, 2007 (file number 001-32185)

(*)

Filed as part of this document.

SIGNATURES

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

INLAND REAL ESTATE CORPORATION

	/s/ ROBERT D. PARKS
By:	Robert D. Parks President and Chief Executive Officer (principal executive officer)
Date:	November 8, 2007
	/s/ BRETT A. BROWN
By:	Brett A. Brown Chief Financial Officer (principal financial and accounting officer)
Date:	November 8, 2007

Exhibit Index

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